

## The Misery of Buying High and Selling Low

Investors were hoping that interest rates would stay low, cap rates would follow, and they would be able to sell.

By **Joseph J. Ori** | July 18, 2024 at 05:27 AM

Buying property at low cap rates is one of the worst strategies in CRE investment and finance. I have published three books on CRE investment and two of them are titled, "The 50 Commandments of Commercial Real Estate Investment" editions I & II.

The first key detail is that "acquiring commercial real estate at low capitalization rates significantly increases the odds that the equity investors will eventually lose their capital." This is exactly what is occurring today in the 28th month of the Fed's higher interest rate crusade with the federal funds rate at an elevated 5.25%, up from 0% in March 2022. Property deals in major markets that looked solid back in 2019 and trading at these sub-5% cap rates have now become an albatross and misery for the owners and lenders.

Many investors did not read the 50 Commandments treatise during the last several years and went ahead and bought CRE assets at thin cap rates from 3.25% to 5.0%. These investors were hoping that interest rates would stay low, cap rates would follow, and they would be able to dump, I mean, sell the property to the next chump, I mean, buyer at the same compressed cap rate. The low cap rate regime became a game of musical lifeboats on the Titanic and the big question was, who would get stuck without a lifeboat as the mighty ship sank? As some of us have witnessed over the last few years, many investors from the largest private equity firms to local real estate developers have succumbed to this cap rate misery.

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