

## PUBLICATIONS

## Lenders need stability before CRE markets will recover

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In a recent article for the *New York Law Journal*, Schulte Roth & Zabel partner Julian Wise and associates James Koenderman and Sabrina Singh examine the impact of inflation and rising interest rates on the commercial real estate lending market.

Historically, the commercial real estate market has increased or at least maintained its value and overall performance during periods of high inflation. According to a study done by Principal Asset Management, which accounted for notable periods of high inflation throughout history (including the late 1970s and early 1980s), commercial real estate has outperformed inflation 87.7% of the time. Investors in commercial real estate have widely considered the sector to be a long-term hedge against inflation, due to the fact that owners of commercial properties are often able to offset any increases in operating expenses by increasing rents by comparable amounts. The commercial real estate lending market, however, is particularly susceptible to inflation, since, during periods of high inflation, central banks tend to raise interest rates to increase the cost of debt, which, in turn, discourages borrowing and decreases consumer demand. Conversely, when the central banks lower interest rates, the cost of debt becomes cheaper, which results in increased borrowing and higher demand for debt. In the last two years, inflation in the United States has risen to levels not seen since the 1980s.

Macroeconomic factors such as supply shortages, geopolitical uncertainty, and low borrowing costs have led to higher commodity costs

and inflation. In turn, high inflation has led central banks to continue to increase interest rates, ultimately resulting in high borrowing costs and curbing economic growth.

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