Capitol Flow Trickles Down to Smaller Cities

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DALLAS—The nature of secondary and tertiary markets' appeal to investors has evolved. For a while there, the rap on properties in smaller markets was that they offered a higher-yield alternative to the core CBD assets everybody was chasing—and bidding up. Now, says Mitchell Hunter at Trimont Real Estate Advisors, yield isn't the only reason that buyers are looking outside the core.

"There's so much capital that has been raised, people are gravitating to these assets simply because they need a place to put their money," the Dallas-based Hunter tells GlobeSt.com. "So there's a trickle-down effect into these markets."

Managing director of the Central Region for Trimont and recently named to oversee the team responsible for special asset management, the 23-year industry veteran is set to provide insights into the CMBS market as one of the industry experts on the "CMBS Report Card: Is The Upturn Ending? Plus! A Closer Look at Today's Special Service Providers" panel during the upcoming **RealShare National Investment & Finance** conference. It's set for Oct. 5 and 6 at the Roosevelt Hotel in New York City.

And although secondary and tertiary markets are perceived to be a little further out on the risk spectrum compared to properties in the gateway cities, Hunter says he's actually seeing "some lack of discipline" among investors vying for the sought-after core assets. That's been the case especially when looking at multifamily properties in those markets, he points out.

Even so, the cost of debt remains marginally higher for assets in secondary and tertiary cities. "We're seeing a slight increase in those rates" compared to what lending sources may charge for debt on core assets, says Hunter. However, he points out that those rates are still very low compared to historical norms.

Moreover, "debt is available across the board" in the smaller markets, he says. Just as investors want to place capital, so lenders want to place debt. "We have many clients in the traditional bridge-lending space" who are active in deals for secondary and tertiary markets, says Hunter, especially with CMBS issuance down substantially thus far in 2016.