THE COMMERCIAL OBSERVER

No Rate Hike, Maybe Later: Why CRE Players Won't Sweat It Either Way

By Cathy Cunningham Sept. 22, 2016, 11:30 a.m.


The Federal Reserve

The Federal Reserve held fast on interest rates this week, announcing that there would be no hike—at least not yet. With the next Federal Open Market Committee's next meeting set for December, real estate experts say that now wasn't the right time for an increase, that that they feel relatively insulated from any impact, and that one hike alone wouldn't be enough to rock the boat. A collision of variables could be something to look out for as the year ends however, one of which is our next president.

A FOMC statement, posted at 2 p.m. on Sept. 21, stated that "the committee judges that the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives," leaving most to assume that a hike will come in December…..

Some saw the move as an indicator of how the economy's current strength is perceived. "It says to me that the Fed is still not completely convinced, seven years or so after the financial crisis, that the U.S. economy has sufficiently recovered," Jerome Sanzo, the executive director of real estate finance for Industrial & Commercial Bank of China, told Commercial Observer Finance "The Fed seems to be in a staring contest with the markets, and the Fed keeps blinking. It certainly is not a statement of strong confidence in the economy."


Andrew J. Singer

Andrew Singer, founder, chairman and chief executive officer of the Singer & Bassuk Organization, concurred that the economy isn't ready for a raise in rates. "The concept of raising interest rates with inflation as low as it is is a very bad thing for the economy. We have all these politicians telling us how bad the economy is, yet the purpose in raising rates is to slow down the economy—why would you want to do that? It makes no sense to me whatsoever."…..

The general consensus among those COF spoke with this week is that the impact of a future hike in rates would be minimal. A single increase wouldn't shake the commercial real estate market—rather, a series of hikes over a specific period would. "If it was 100 basis points in six months time that would be alarming to the market. But to me, the the real issue is found when this becomes a trend in combination with other variables," Kasselman said.

Singer echoed this sentiment. "[An increase] would be such a small, incremental change that this change by itself would have minimal effect. The Fed could move rates a fair amount and interest rates would still be extraordinarily low. If rates went up 50 to 75 basis points, everyone borrowing money would be very unhappy but it wouldn't stop them if the deals made sense," he said.

A rate hike at the end of the year could add a little extra bleakness when coupled with risk retention implementation for commercial mortgage-backed securities on Dec. 24. "I do think that insurers have been picking up some of the slack with regards to banks' willingness to lend. So I think it's less of a pass-through issue and more of a risk appetite issue," Learner said……

Perhaps an even more significant game-changer will need to be dealt with a month earlier—in November. "If a certain person wins and takes the market in a certain direction with him or her, we can agree that is a big variable, and together with a couple of rate hikes you could see an impact," Kasselman said "This election isn't just domestic, it's global. The whole world is watching and holding their breath."

Singer agreed, saying "There is no way the sky would have fallen whether or not rates went up. It's the trend that follows, and other incremental increases that you have to watch. Beyond that, the big issue is—who is the next president? That could make the sky fall."

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