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Sequestration: keep your eyes on the road and keep trucking

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On March 1st the day before the first day of Sequestration, jobs and securities markets appear to be stable with upside improvements. The negative impact on GDP is less than .06%. Fundamentals are mostly unchanged, with some marginal drag. The commercial real estate capital markets are expected to record further improvements in 2013 over 2012 gains. Budget cuts mandated by sequestration will catch some important federal expenditures in affordable housing, defense and arbitrary incidental payroll, among others. However, budget cuts imposed by sequestration can be adjusted or reversed in monthly Congressional resolutions, and many economists expect monthly activity to do so even if such activity lacks predictability of detail. Media-hyped, draconian economic impact appears to be baked into the numbers and markets. Uncertainty about these budget cuts will have outfall. We wonder why our economy has to suffer from the political bad weather like it's a natural phenomena or disaster.

Commercial real estate investment is expected to maintain its market position with competitive yields. The capital markets impact liquidity and refinancing, and new development in commercial real estate. With only moderate gains in economic fundamentals, the balance of supply and demand is being closely monitored and underwritten in all submarkets - geographic, and property types, size and quality. Debt yields, terms, loan ratios to value and cost have been consistent and constrained. However, capital sources admit to being concerned about the competition for product and the challenge in 2013 to meeting investment and allocation goals.

The Real Estate Finance Association (REFA) in Boston featured a panel on February 26th on the wrap-up of the annual Mortgage Bankers Association Expo on February 19th-22th, in Dallas. Representatives of Prudential Insurance, Wells Fargo and Fidelity provided anecdotal backdrop to the outlook for 2013. All three have an array of products with varied investment objectives ranging in size from five million to several hundred million dollars. All three are involved in private and public markets. They consistently reported a robust appetite for 2013 including a significant increase over 2012. Reporting from the MBA Dallas meetings, they acknowledged that the sources and options have increased over 2012, and accordingly, competition is expected to be heightened in 2013. The CMBS market received significant attention. Prudential is sponsor and investor. Wells Fargo is one of the largest investors. Fidelity is an investor. Early 2013 volume and commitment activity trends indicate 2013 will significantly top 2012. CMBS has historically warmed the competition for product with aggressive underwriting and term and filled certain product voids in quality and risk.

Sequestration has brought further focus to federal spending, the federal budget deficit and federal debt. Unfortunately any positive outfall has resulted from default, and continuing political dysfunction of our government. No particular lesson or analogy can be derived for commercial real estate investing in 2013. Just keep your eyes on the road and keep on trucking!

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