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CELEBRATING 55 YEARS

Money is available, why wait to finance

April 25, 2013 - Spotlights

These continue to be unusual times in the capital markets. Interest rates are at levels not seen in most of our lifetimes. CMBS is resurgent. Commercial banks are aggressively pursuing business in commercial real estate and the life insurance industry is setting records for commercial mortgage volume. Money is available for bridge loans on turnarounds and acquisitions, mezzanine debt is plentiful from numerous sources and there is also equity in numerous forms from joint ventures to preferred sources.

The question is: Where are we going from here? More than four years ago the Federal Reserve began its first round of Qualitative Easing (QE1). It has recently expanded its third round of QE to boost economic growth and cut the jobless rate which now stands at 7.6%. The Open Market Committee meeting minutes now indicate growing support for ending the $85 billion in monthly bond purchases sometime this year. The debate is whether to end at mid-year or year end. The answer now is not if but when and that certainly will put pressure on rates. Foreign banks could add to this pressure if they chose to do so. The graph above shows the amount of our debt held by foreign countries.

No lesser light than Bill Gross the guru of the bond market who has criticized the Federal Reserve's purchases of Treasuries and agency mortgage bonds in past letters, wrote in his January investment outlook entitled "Money for Nothin' Writing Checks For Free" that the purchases will lead to a devaluation of currencies and gradually weaker investment returns. "The future price tag of printing $6 trillion worth of checks comes in the form of inflation and devaluation of currencies either relative to each other, or to commodities in less limitless supply such as oil or gold," Gross wrote.

With rates currently between 3.5 % and 4.5% for five and ten year money and bridge rates in the 6% range, why wait to finance. We may finally have reached a bottom for both interest rates and capitalization rates.

James Murphy, CMB, CRI, is the managing director for NorthMarq, Boston.