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Clearly the market psychology has changed and taking stock of your financing needs makes sense

July 25, 2013 - Spotlights

"God grant me the serenity to accept the things I cannot change; courage to change the things I can; and wisdom to know the difference." - Reinhold Niebuhr

This would be a good time to remember the Serenity Prayer penned by theologian Reinhold Niebhur as part of a sermon in 1943. The financial markets reacted violently to Fed chairman Bernanke's June statement that the time was coming for the tapering of the Central Bank's $85 billion per month purchase of bonds. Long term treasury rates moved over 80 basis points in the last week of June and the first week of July. This forced Mr. Bernanke to issue a follow up statement clarifying the conditions under which the tapering will occur. He also likened the tapering to removing the foot from the gas pedal rather than slamming on the brakes.

As the charts indicate, interest rates hit 60 year lows in May of this year. Whether we are at the end of Federal Reserve easing or not, there is no cause for panic. Looking at both the five year and ten year treasury, the market does appear to think that we have finally reached the bottom.

The public announcement on June 17 by the Fed that it was maintaining its monthly $85 billion of bond purchases while at the same time saying that both the economy and the job market are showing signs of improvement resulted in a slide in bond prices. On July 5, a benchmark bond that's widely referenced by CMBS investors, the A4 class of GS Mortgage Securities Corp. II, 2007-GG10, was 20 basis points wider, at 160 basis points more than swaps.

While this was clearly an overreaction, it probably does signal a change in direction for Fed policy and should be a warning to borrowers that rates are going to trend up. The end result is that now would be a good time to examine maturing fixed and floating rate debt with an eye toward fixing rates for the long term. With rates for long-term fixed-rate mortgages remaining in the mid 4% to 5% range, this is still an attractive time to borrow. If you are a buyer or developer of commercial real estate, the increased cost of debt will eventually filter through to capitalization rates, but for now this remains an attractive time to buy.

There is no need to panic but clearly the market psychology has changed and taking stock of your financing needs makes sense. NorthMarq stands ready to be of assistance with its wide array of debt and equity sources. From GSE to life insurance company to bank financing, from first to mezzanine to bridge lending NorthMarq Capital has the sources to make your project successful.

We have closed over $4.4 billion in transactions in the first six months of this year and currently service over $40 billion in commercial mortgages.

James Murphy, CMB, CRI, managing director of NorthMarq Capital, LLC, Boston.