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## **2018 commercial mortgage outlook: What a difference a year makes - by Michael Chase**

January 26, 2018 - Spotlights

Michael Chase,  
Northmarq Capital

At this time last year the industry looked out at 2017 with a high level of uncertainty. What would be the impact of the new administration? What would tax reforms look like and how quickly could they be implemented? Had property valuations reached their peak? These issues, among others, left many investors on the sidelines at the start of 2017.

If the start of 2017 was the time to “Wait and see,” the start of 2018 should be “No time like the present.”

In late December, the long-anticipated tax reform bill was passed, and by most accounts the new provisions are considered favorable for the commercial real estate industry. In addition, the regulatory environment appears favorable in the near term. Over the past several years industry buzz words such as “Reg AB,” “HVCRE” and “Risk Retention” and the uncertainty surrounding them were the cause of consternation. If anything, there is now an expectation for more clarified and even reduced regulations in the upcoming year.

So why is now the time to act? The simple answer is interest rates. For all the favorable news surrounding the commercial real estate industry heading into 2018, the one thing that is likely on the horizon is rising interest rates. After multiple rate adjustments in 2017, it is expected the Federal Reserve will increase the overnight rate three more times in 2018. While that only has a direct impact on the short end of the yield curve, global and domestic economic forces, which have been keeping downward pressure on long-term rates, may be starting to loosen.

Along with their anticipated rate movements, the Fed has announced they will be shrinking their balance sheet. China, the largest international holder of U.S. debt, has also made indications that they may begin reducing their purchases of U.S. Treasuries. Both could have an impact on the supply side of the bond market, resulting in increased rates. In early January, European bond yields reached multi-month highs on expectations the European Central Bank would end their stimulus programs. Several announcements have since been made to quell these fears, but if this should change it could be yet another contributor to higher interest rates in the U.S.

The good news for borrowers is there is plenty of capital available for commercial real estate financing. All of the major capital providers such as banks, agency lenders, life companies and CMBS are in the market and looking to invest capital in commercial mortgages. In addition, the market continues to grow with alternatives such as mortgage REITS, private wealth funds and crowd sourcing platforms looking to fill the gaps not being met by traditional capital sources. Even in a risky interest rate environment spreads have compressed, keeping mortgage rates relatively low...for now!

Michael Chase is senior vice president | production at Northmarq Capital, Boston, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540