



nerej

Watching and managing debt: We're paying close attention - by Kirk and Pelletier

April 12, 2019 - Appraisal & Consulting

David Kirk

Brett Pelletier

First quarter securities market has been resilient, albeit temperamental. The fixed income market has fluctuated if not gyrated with movements in treasuries sending mixed signals. Further, a partial and sporadic inverted yield curve on government securities has been recorded irregularly during the quarter, with four, very modest, inversions of the one-year and ten-year curve in the last quarter. Certainly, nothing to fret about just yet. The Fed has been actively communicating on its dashboard and economic risks, if not speculating on the inversion. Spreads regained positive relationship now

floating around 10 basis points. Fed action managing its balance sheet as well as rates will have a rippling impact on the fixed income market. Financing the federal deficit will further ripple the markets in unpredictable ways.

Traditionally a symptom for economic contraction, prolonged yield curve inversions have provoked commentary generally restrained except for bell ringing on each daily inversion occurrence after the close. For commercial real estate lending, some compression in spreads has occurred during the quarter which indicates a positive outlook for the near and not so near term. Commercial real estate continues to be supported by persistently favorable fundamentals and regional market supply/demand balance and with sticky local markets, is less reliant on macroeconomic trends and metrics than other asset classes.

Although this limited almost random activity is not alarming or at this moment relevant to watching and managing debt, cumulating activity will be. Pause. The Wall Street Journal reported that Friday, April 29th marked the largest one-day increase in the 10-year treasury rate since the beginning of the year. One-off decisions depend on alternative investments, the entire portfolio and relationships on both sides of any single transaction. Accordingly, being engaged is important as market makers consider inversion and inflection. Sideline speculation on the trajectory of daily data is part of debt management. Talk to lender, capital sources, and market makers. All deals are local in commercial real estate.

In a recent release, CBRE reported that the recent inversion was likely to have little impact on the real estate sales and debt markets and pointed out the variability in the inversions of late. CBRE forecasts a very mild and short-lived recession in late 2020 or early 2021. Certainly, a positive outlook on some inconsistent data patterns. Global imbalances and shifts are still an uncertainty as data coming from China bounces around and Brexit negotiations become more and more messy, but it remains to be seen what the impact will be on the U.S. and real estate markets. Ultimately, long-term sustainability has to include aggressive treasury winding down and less reliance on foreign investment in U.S. debt, but for now, we're paying close attention.

David Kirk, CRE, MAI, FRICS, is principal and founder and Brett Pelletier is chief operating officer of Kirk & Company, Real Estate Counselors, Boston.

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