



CELEBRATING  
55 YEARS

# nerej

## **Inflation worries? ... or “not to worry?” - by Daniel Calano**

August 13, 2021 - Appraisal & Consulting



Daniel Calano

We have all worried about the recent inflationary situation impacting real estate, where commodities like wood and steel have become extremely expensive, to say the least. Some commodities have increased in price by several hundred percent. On top of that, labor costs have spiked, caused by workers in short supply. But, I wrote about that last time, and it is so “yesterday.”

Federal Reserve Chair Powell is now convinced that most of these inflationary trends are transitory. Much of this has come true, and this is one fact that would suggest we shouldn't worry. On the other hand, the amount of stimulus issued through both Congress and the Federal Reserve portends continued and growing inflation, and thus higher interest rates. If this occurs, the Federal Reserve will work hard to cool it down. So far, the Fed has made good on its promise to keep this short-term borrowing rate low, while continuing to purchase treasuries to finance debt, thus helping to keep longer-term interest rates low as well.

Beware, this is extremely complex monetary maneuvering, which is certainly not easily understood, nor frankly that interesting, to us normal real estate people. What we want to know, simply, are rates going to increase and cost us money, right? What we do know is that interest rates for commercial/residential borrowing had been very little for over 15 or so years. Most recently, we have been borrowing money somewhere above 3%, and we are very, very used to it.

Many economists have predicted over the last 10 to 15 years that we would have inflation, and interest rates would subsequently, and potentially dramatically, increase. Some worried about “hyper-inflation.” For the most part this has not occurred, for many different reasons, during different periods, too complex to review here. The take-away is that even the best economists could be wrong, given the complexities of the many factors that impact interest rates.

This particular time in our real estate lives is unprecedented. Largely caused by our long pandemic, with recent delta variant uncertainty, we have had huge increases in national debt, many times greater than during World War II. Part of our response has been to purchase that debt, by our own Federal Reserve, a somewhat circular and incestuous response. In fact, the Fed has bought over 75% of all of the federal debt issued during the pandemic. Now this could be a worry!

OK you say, why should we NOT worry? First, if the US economy continues to grow as it is now, and GDP continues to grow, financing future debt is less worrisome. As a result, the latest projections from the Federal Reserve indicate inflation will stay at or below the bank's 2% target, at least for the immediate future. Many economists agree. Furthermore, when the Fed ultimately does “taper” by buying less debt, it will be unlike the taper tantrum after the Great Recession. Why? the Fed has planned both the timing and amounts of pulling back, apparently in a manner that will mitigate those previous problems. Finally, if interest rates were to increase, our government simply will not be able to pay the debt service! That's not going to happen.

Only time will tell. As I said, there are myriad financial, political, social, and even black swan events that could take us by surprise. One thing is clear: the Fed is laser focused on fostering a strong

economy, with a reasonable cost of money, and inflation rate or CPI of around 2 to 3%. I think we could all breathe a sigh of relief if that holds true.

Daniel Calano, CRE, is managing partner and principal of Prospectus, LLC, Cambridge, MA.

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