Marcus & Millichap
Capital Corporation

Cap Alert

LATEST DEBT MARKET INFORMATION

August 22, 2019

Navigating Volatility in the Near-Term

On July 31, the Federal Reserve lowered benchmark interest rates by 25 basis points in an effort to extend the U.S. economic expansion, setting the target range for the federal funds rate at 2.0 to 2.25 percent. Unfortunately, the markets took a negative view of Fed Chairman Powell's commentary following the rate cut, and stocks sank. A day later, concerns over the U.S.-China trade war escalated as President Trump placed new 10 percent tariffs on $300 billion worth of Chinese goods and China retaliated by allowing its currency to depreciate to the lowest level since 2008. The uncertainty and anxiety created by this series of events triggered a selloff in the stock market and a flight to safety in bonds. As a result, the yield on the 10-year U.S. Treasury has been trending downward all month hitting a low of 1.52% on August 15. Further, we witnessed an official inversion of the yield curve, a signal of a potential recession.

In a volatile environment, it is important to carefully evaluate the amount of leverage on each asset and stagger loan maturities.

The current equity market volatility is likely to linger in the near-term as trade talks resume and the market digests mixed economic signals. There are clear signs that manufacturing activity is slowing, global growth is deteriorating, and a stronger dollar could weaken exports. The impact of the U.S.-China trade war on the overall economy is real. On the other hand, the unemployment rate remains near a 50-year low, corporate earnings are solid and consumer confidence is high. And the administration still has other levers it can pull to support the growing economy.

In this volatile environment, owners and investors should work with their mortgage bankers to evaluate their entire portfolios, and get their assets appropriately positioned for a potential downturn in the economy. Rates are remarkably low, and capital is abundant. This is an optimum time to refinance into loans with extended lengths, lower rates and nonrecourse terms. It is also important to carefully evaluate the amount of leverage on each asset and stagger maturities to diversify your maturity risk. Though we hope the economy will continue its impressive historic expansion, these best practices should pay dividends even if a recession occurs within the next 12-18 months.

INDEX RATES

Benchmark Rates and Derivative Products

Freddie Mac SBL Rates

Freddie Mac Conventional Rates

Fannie Mae Small Balance Rates

Fannie Mae Conventional Rates

Life Companies & CMBS Indicative Rates

RECENT TRANSACTIONS

MULTIFAMILY
Los Angeles, CA
$11,000,000
4.30% Adjustable
15-yr term/30-yr amort.

SHOPPING STRIP
North Las Vegas, NV
$4,790,500
4.16% Fixed
10-yr term/25-yr amort.

OFFICE
Independence, OH
$4,700,000
3.89% Fixed
7-yr term/15-yr amort.

HOSPITALITY
Kenedy, TX
$4,300,000
4.62% Fixed
5-yr term/30-yr amort.

STNL
Tampa, FL
$4,150,000
3.55% Fixed
10-yr term/30-yr amort.

SELF-STORAGE
Maurice, LA
$2,600,000
4.50% Fixed
10-yr term/25-yr amort.

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