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Impact of Fed's December rate hike tough to unravel

By Catherine Lackner

Has the Federal Reserve Bank's rate hike of one quarter percent last December had an effect on Miami's economy? It's complicated, observers say.

"The rate hike in December 2015 really hasn't had an impact on the Florida economy as far as the real estate or banking sectors," said Mason Williams, senior vice president and chief investment officer at Coral Gables Trust. "The timing occurred at the same time recessionary and global growth fears flared up, resulting in the bond market reversing course. This reversal caused interest rates, in general, to go down, thus eliminating any potential consequence of the rate hike," he said.

"After the Dec. 15 rate hike, the Fed penciled in four more increases, but in 2016, due to market volatility and recession talk, the projected path of rate hikes got pushed out further," Mr. Williams said. "Right now, they're saying there may be a rate hike in the fourth quarter, but that will be data-dependent" and based on an assessment not only of the health of the US economy but the global financial picture as well.

Photo by Maxine Usdan

"The increase in rates is an indication that the overall economy is improving": Howard Taft of Aztec Group.

For now, there have not been perceptible changes in most people's investment strategies, and Mr. Williams said it will be a long time before these gradual rate increases – if they come – will make a major dent. "Rates are still historically low, and it's going to take lot more increases to affect the market."

"The increase in rates is an indication that the overall economy is improving," said Howard Taft, senior managing director for Aztec Group Inc. "But borrowers have to pay more interest than they did a couple of months ago."

This especially affects developers and investors in large projects, because as the cost of borrowing rises, their projects can become less feasible, especially if projected rents and sales prices can't keep up with development expenses, he said. "Even a small increase can cause a project to be swamped if the developer can't raise prices," he said.

"There is also a high volume of loans that are maturing over the next few years," Mr. Taft said. The 10-year loans originated during 2006-07, frenetic years when money was flowing freely, real estate prices were mushrooming, underwriting standards were lax and there was no indication of the crash to follow.

"We've been advising clients to refinance now, to take advantage of lower interest rates, even if they have a prepayment penalty," Mr. Taft said. "These are historically low interest rates, so now is the time to lock in the loan. I believe we won't see this level of low interest rates for many years."