COMMERCIAL PROPERTY EXECUTIVE

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# Why Steady Interest Rates Won't Save the Day

## While the Fed takes a patient approach, what else could disrupt the capital markets in 2019? Aztec Group's Charles Penan sheds light on potential pitfalls.

With the economy poised for a slowdown in the next 12 months and several global events altering investor sentiment, the capital markets landscape was looking at possible shifts and rifts in 2019. But a piece of domestic good news has helped the industry loosen up, even if only to gain time for better planning ahead. The Federal Reserve has recently indicated that interest rate hikes will be paused and maintained in the range of 2.25 to 2.5 percent. In a statement issued at the end of January, the Federal Open Market Committee noted that it *"will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate"* to support economic activity and labor market conditions.

While this made investors sigh with relief, caution is still required, says Charles Penan, executive vice president with Florida-based banking firm Aztec Group Inc. Penan shared his views on the variations that might still disrupt capital markets going forward.

**What factors will influence capital markets in 2019?**

**Penan:** Uncertainty in the global market will greatly influence the real estate capital markets in 2019 and beyond. International issues such as Brexit, the U.S./China trade war and a potential global recession are causing a fundamental shift in mindset. We are seeing a lot of investors looking to pay off debt as soon as possible to secure the longest-term, lowest cost of capital and lock in perceived equity before the market shifts.

**Tell us about your predictions for the financial markets in the year ahead. What will be the main trends?**

**Penan:** The global assumption is that interest rates will be higher in the long term and that capitalization rates will adjust accordingly. My prediction is that rates will be even higher a year from now, which will have a significant impact on commercial real estate values.

**Is the competition in the financing environment a bad sign? Why?**

**Penan:** From the end-user perspective, competition is always a good thing as it creates more opportunity for borrowers and users of capital to negotiate better financing terms. While underlying standards among different types of lenders may vary, more players in the market drive more flexibility and creativity in loan terms.

**Are there any reasons to worry about the stability of the real estate market going forward?**

**Penan:** Aztec Group is a capital intermediary and from the mortgage broker perspective, unrest in the global markets means that borrowers should take advantage of current interest rates before a potential shift. While it is impossible to predict exactly how the market will react to global events such as Brexit, the uncertainty is what we advise our clients to take into perspective.

**What can you tell us about the financing activity in South Florida compared to the rest of the country?**

**Penan:** South Florida has a lot going for it in terms of desirability. The region's tax structure, weather, location and lifestyle are virtually impossible to match. Buyers and investors continue to pursue real estate in Miami and South Florida because the benefits of buying here outweigh most other major U.S. and international markets.

**How do you see the South Florida market evolving in 2019?**

**Penan:** I see the market becoming much more stable as the region attracts more and more institutional and global investors. We saw a lot of established firms pursue equity in our market over the past year and this trend should only continue as market fundamentals are very strong and will remain so moving forward.