

Developing Trends

- **At least two more rate increases** were signaled by the Fed for the remainder of 2017. Strong confidence combined with rising fiscal stimulus and tax cuts, however, could spark faster economic expansion and cause the Fed to become more aggressive with rate hikes in an effort to maintain balanced growth.
- **The Federal Reserve must focus** on the delicate balance of maintaining growth without allowing inflation to rise too fast. However, rising inflation does signal stronger economic growth and boosts the appeal of commercial real estate due to its inflation-hedge characteristics.
- **Though yield spreads will likely** compress as the cost of capital rises, cap rates have not historically moved in tandem with Treasury rates. Declining vacancy combined with rent growth will underpin continued performance gains, sustaining a positive long-term investment outlook. Combined with market liquidity and strong capital flows to commercial real estate, valuations remain supported.

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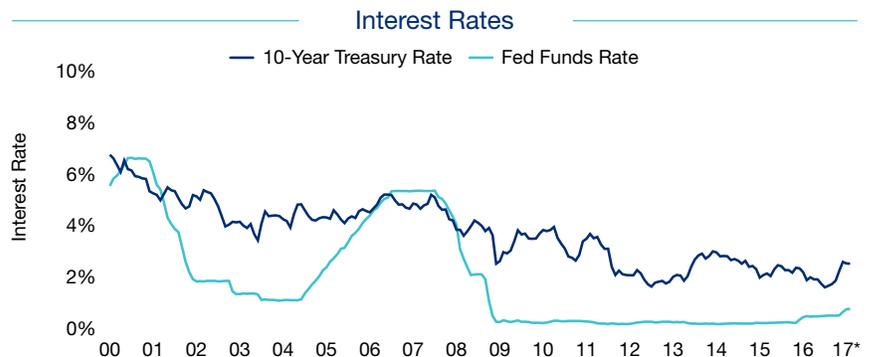
Fed Rate Increase Offers Mixed Results

KEY OBSERVATIONS:

- Fed action signals its confidence in the economy and staves off future inflation risk.
- Rising interest rates are reinforcing investor caution and slowing investment real estate transaction activity.
- As clarity on tax reform, regulatory reform and fiscal policy emerges, confidence should return, lifting sales activity.

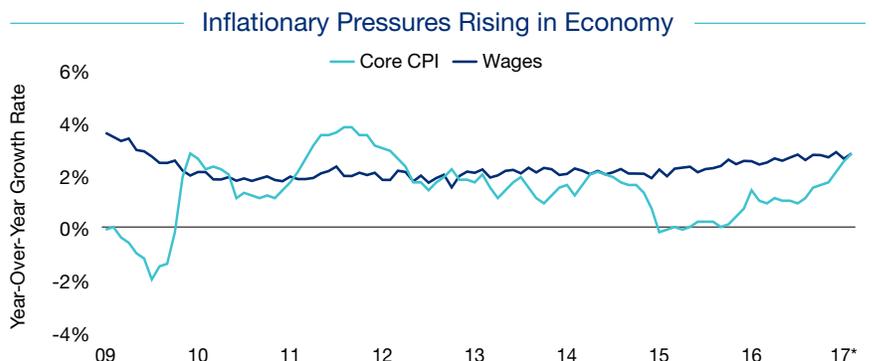
A positive economic outlook motivated the Federal Reserve to raise its benchmark rate by 25 basis points. The Fed's confidence has improved significantly over the past 12 months given the tightened labor market and steady retail sales growth. Rising Fed Funds do not necessarily align with Treasury rate movement, thus the Fed's action will not cause a dramatic change in the 10-year rate.

The jump in long-term interest rates at the end of 2016 caused buyers to recalibrate their assumptions, widening the bid/ask spread and slowing commercial real estate transactions. Investors have begun to factor the rising interest rate environment into underwriting but uncertainty regarding fiscal and tax policies will continue to restrain sales until greater clarity emerges.



235,000 Monthly Job Gain
 February 2017

2.8% Wage Growth
 Through February 2017
 Y-O-Y



* Forecast

Sources: Marcus & Millichap Research Services; BLS; Federal Reserve Board