Marcus & Millichap

Research Brief

December 2016

RATE INCREASE

IMPORTANT FACTORS

The current 4.6 percent unemployment rate is effectively full employment. The tight labor market will support wage growth, raising inflationary pressure and prompting the Fed to remain highly vigilant in the coming year.

Past Federal Reserve monetary policy tightening decisions triggered a decline in the stock market and lower long-term Treasury rates. This increase was widely expected and could be different.

The Federal Reserve rate increase is largely already baked into the 10-Year Treasury rate, which has risen by nearly 80 basis points since early November. Lenders have held spreads through this period, raising borrowing costs and widening the buy/sell expectation gap.

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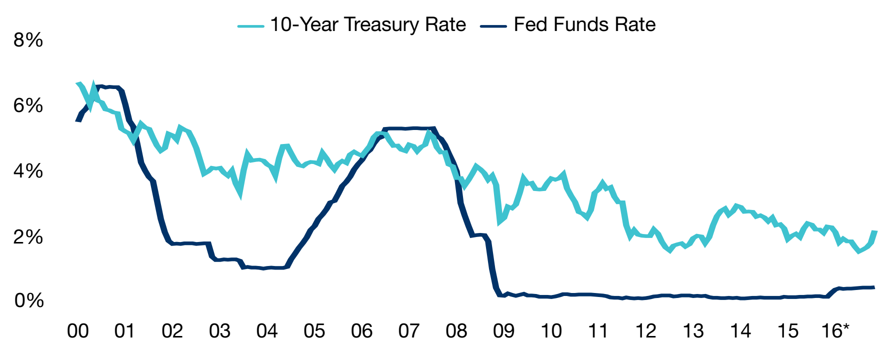
Fed Rate Increase Creates Mixed Signals for Investors

The Federal Reserve raised its overnight rate by 25 basis points to a range from 0.50 percent to 0.75 percent. This decision reiterates the positive economic outlook for 2017 that could accelerate monetary policy in the coming year. Rising interest rates will remain a significant factor in the commercial real estate market that could force asset repricing.

Rising rates widen gap in expectations and slow transaction velocity as investors reassess prospective yields. While many sellers are still trying to achieve peak pricing, buyers are reevaluating acquisition criteria in a rapidly moving capital environment. The performance outlook remains positive, but upward pressure on cap rates is emerging.

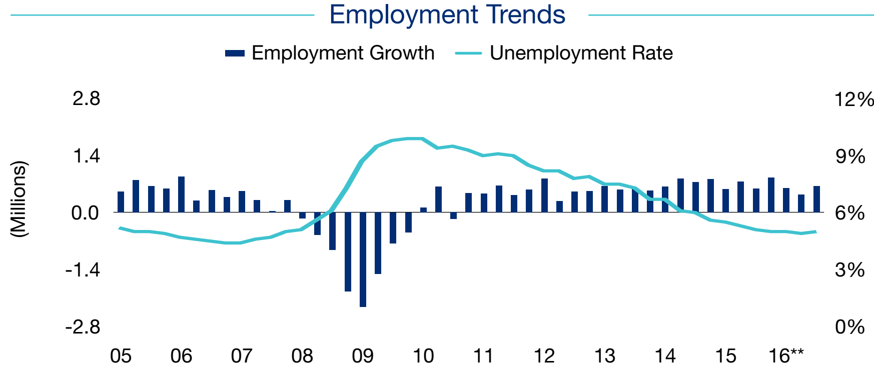
Interest Rates



2.57% 10-Year Treasury Dec. 14, 2016

4.6% Unemployment Rate - Nov. 2016

Employment Trends



* Through November ** Through third quarter
Sources: Marcus & Millichap Research Services; BLS; Federal Reserve Board