Real Estate Financing in 2017: Plan A, Plan B and Plan for the Unexpected

By **Susan Blumberg**

As we work our way past the election, we are united in being surprised, and somewhat unprepared. For those of us who have been in the real estate business for more than one cycle, we would say "you don't know what you don't know" and hope we get some or most of it right. That being said, it is most wise to have a plan for the what-ifs. If you plan for the downside and hope for the upside, you will be better off in the long run. So where does that leave us for 2017?

Plan A is to charge forward. The fundamentals of real estate are excellent. Interest rates have maintained low levels for a longer period of time than any time in history. Credit today seems to be at a solid post-recession (2007-2010) level. Properties have weathered the refinance storm very well, and values have held up quite nicely. The refinance mountain of maturities is gradually rolling off—and at stable valuation levels. Multifamily has absorbed an abundance of new properties coming on line, and the trend of rental housing continues as the challenge to purchase homes has not changed nor will it any time soon.

Plan B is to lock it up NOW. Rates are starting to edge up, some planned, some as a market reaction to growth and inflation. My experience tells me that rates will be rising, therefore values will be affected and now is the time to be forward-thinking. Loans that are assumable will be more valuable. There is lots of talk about the tax laws finally being revamped, which will directly affect investors. Long-term investments, capital improvements and fixed interest rates can help alleviate the risks of variations and inconsistencies. Lenders will be paying particular attention to the "exit risk" at the time of refinance. Cap rates will likely be adjusted upward, as will interest rate stress tests. The more amortization, the less risk. Interest-only loan term offerings will not be as available as the amortization will be important to assure refinance probability.

Interest rates go up and down. Values…just go up, right? Question is: Are you in for the long haul, or just the short term? That will determine your appetite for sooner than later preparedness. ■

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