

6140 28th Street SE, Suite 215 | Grand Rapids, MI 49546 | (616) 957-4777



Commercial Real Estate, Inflation, Volatility, and Interest Rates

We have attached links to 3 recent articles you may find interesting.

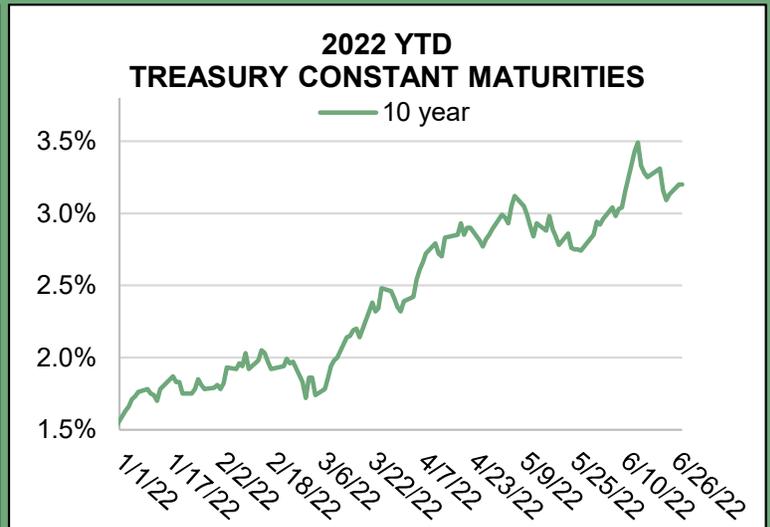
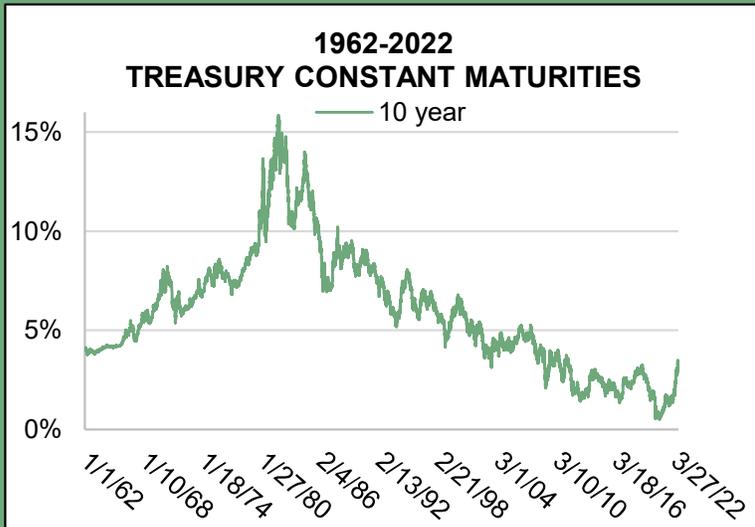
[Frank Luntz, CNBC pollster and political analyst on the effects of inflation](#)

ITR Economics (an economic forecast company) on interest rates and the coming depression

[Rates Are Rising – Should You Still Borrow?](#)
[Top 5 Causes of the 2030s Great Depression](#)

Greemann Capital Historic Interest Rate Graphs

Note the long term trends in the 60 year graph and the volatility in the YTD graph.



Some of our thoughts to share:

- Commercial Real Estate is a good hedge against inflation when properly structured.
 - Control your expenses. Debt service and real estate taxes are your biggest expenses. Fix your interest rate as long as possible.
 - Multifamily projects give the owner the ability to raise rents with the market to offset cost increases and provide an inflation hedge.
 - Commercial properties that are structured with periodic rent increases are the most valuable and best inflation hedge.
 - If you are developing a new commercial property include a rent variable for the cost of funds. As inflation and interest rates increase the loans are size constrained by debt service coverage and debt yield rather than loan to value, which has been the governing metric in the recent low-interest-rate environment.

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- As inflation and interest rates increase, cap rates will increase and values will decline. You can protect your cash flow with a long-term fixed-rate commercial mortgage loan.
- How can Greemann Capital help with our commercial mortgage needs?
 - Lock the interest rate at application for the term of the loan (25-30 years)
 - Single-tenant build-to-suit transactions, we can offer long-term fixed-rate construction/perm loans where the rate is locked when you sign the lease and fixed for the life of the lease.
 - Arranging a loan that locks the interest rate at the application and can be forward funding for construction or tenant improvements.
 - The best inflation hedge is a long-term fixed-rate loan. 77% of the last 70 deals we have closed have been a 15-year or longer-term and 35% have been a 25-year or longer term.

<u>US Treasury Bond Yields</u>				<u>Current Interest Rates</u>	
<u>Period</u>	<u>5Y</u>	<u>10Y</u>	<u>30Y</u>	<u>Term</u>	<u>Rate Range</u>
Current 6/28/22	3.24%	3.18%	3.29%	3-5 Years	5.00%-5.50%
Week Ending 6/24/22	3.22%	3.16%	3.25%	7&10 Years	4.75%-5.50%
May 2021	0.79%	1.58%	2.26%	15, 20, & 25 Years	5.00%-5.75%
May 2022	2.81%	2.85%	3.07%	Amortization	15-30 & I/O

Note: Multi-family rates tend to be lower with the agencies (FNMA, Freddie Mac, or HUD). Low leverage and fully amortizing loans are at the lower end, while small loans and fuller leverage are at the higher end of the range.

Please feel free to call Greemann Capital to discuss any of your financing needs.

Knowledge Experience Results

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