

## Interest Rates and the 2014 Investor

*By Paul Daneshrad, CEO, StarPoint Properties*



As 2014 begins, investors are questioning the future of interest rates. Because these rates will undoubtedly rise in the coming months, the question becomes: "Is the economy heating up and increasing the demand for real estate?" The answer to this question is complicated and there are a few things investors should take into consideration regarding their real estate investments in 2014.

First, investors may be daunted by the potential interest rate increases and what the Fed influence means for their real estate investments.

Obviously, the Fed plays a factor in interest rates and investment strategies in light of its recent decision to avoid increasing rates until the unemployment rate comes down and the overall economy improves, which is expected to happen in early 2015. However, the Fed can certainly influence the rates, but cannot completely control them. In the end, the market will control the interest rates and in 2014, will be left to its own devices.

Investors must also take care to synergize their capital strategies with their business strategies. In an environment where interest rates are at 60-year lows and are likely to rise, you have to make sure that if you're buying a real estate asset today and you plan to sell it three years down the line, you factor higher interest rates into your model. Businessmen and women who do not do this take a huge risk as interest rates may be upwards of 200 basis points higher than they are today by the time they employ their exit strategy.

In short, investors must be aware that the rise of interest rates may offset some, though not much, of the cape rate inflation. As a result, there will be a negative impact on real estate values. Additionally, certain market sectors will feel the impact harder than others in 2014, because interest rates will have a disproportionate impact on different property sectors. The economy will remain in the slow recovery stages in 2014, and investors should take care not to become overzealous about the market heating up.