WHERE DO WE GO FROM HERE?
2015 COMMERCIAL REAL ESTATE FINANCE OUTLOOK
BY JAY ROLLINS

There has been a lot of recent economic news, most of it in relation to volatility and uncertainty. The stock market is at a record high and interest rates are near record lows. As such, the primary question is: where do we go from here?

First, a quick look at where we are: the Federal Reserve has stopped buying bonds and has also not raised the discount rate. The stock market is at a record high and interest rates are near record lows. Unemployment is down to 5.8%, and the average gas price is below $3 per gallon. On the international front, China is slowing down, Europe is not looking good and Japan is in a recession. All of these factors beg these questions:

• How will the Fed’s policy of low rates coupled with the end of bond buying affect us moving forward?
• When will rates raise, and by how much?
• Are we recovering, recovered, or are there problems lurking due to the monetary policies of the past six years?

THREE LIKELY OUTCOMES
While we are in unchartered waters, I do see three likely outcomes:

A soft landing
Three cheers for the Fed—they did it. Prosperity continues to grow, rates increase gradually and are accepted by the economy, growth continues without any unintended consequences, and we have three to five good years ahead.

A bumpy ride
Gradual improvement, mixed in with significant volatility. No real meltdowns, but an expanded trading range and an economy of winners and losers continue.

A dislocation
An event-driven market dislocation that may be an interest rate spike, macro market event, or a bubble bursting (stocks) causing markets to drop, investor fear, and possible recession.

As prudent investors, we must assess the risks and build an appropriate portfolio. That is why we at JCR are using the third scenario—a dislocation—as our base case, as we build our current portfolio. We believe a defensive posture is an appropriate hedge against what we feel is a 33% uncertainty. If a dislocation occurs, JCR will have a book of investments structured to withstand this shock.

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US ECONOMIC SNAPSHOT
• Unemployment is at 5.8%.
• Average gas price is less than $3/gallon.
• The Federal Reserve is projecting higher rates by the middle to end of the year.

SUMMARY
Hence, with the market in mind, we are focusing on the short duration, cash flowing, low basis and low leverage investments.

We do not know what’s coming, but at JCR, we will continue to underwrite to a market disruption and an interest rate increase.

Jay Rollins is the president and CEO of JCR Capital, a Denver-based commercial real estate finance company that focuses on middle market sponsors.