

APARTMENT REPORTER

JULY 2016

FAULT LINES RUN AROUND THE WORLD

Several years ago I wrote about the European Union (EU) and how the cobbling of the many countries and cultures would be ultimately doomed to fail. The first major fissure just appeared in the facade with the Brexit vote.



I do my best to look at the situation agnostically both inside of the United States (US) and outside of our borders. It is important as a property owner, especially someone who is thinking of buying and/or selling, to read the tea leaves as unemotionally as possible.

Why does Brexit matter to someone who owns an apartment building or two outside of the EU and Great Britain? I will share how it directly impacted me.

I had more than 10 refinances going through the process and had not locked in the rate. My thought was that interest rates would be relatively flat so no need to pull the trigger until the loans were about to close. Then the Brexit vote happened and the 10 year treasury yield dropped 40 basis points (or almost ½%). When we started the process, we believed that we would be borrowing at about 4% and instead we locked in at 3.48%.

As I had been watching the goings on in Europe very closely, I believed that if the referendum in the UK passed, it would scare people worldwide and they would invest in US Treasuries which would conversely drive yields down. I have been asked if I thought this would be the “black swan event” which would knock the US into recession; I do not believe it is.

I do believe that this is the first step in unraveling the EU. Immigration and the poorer countries (Greece, Spain, etc...) inability to print their own currency will be the catalyst for more nationalist movements to spring up and vault them out. While it might be easier for Great Britain to decouple since they have their own currency, we undoubtedly will see movement in the other 28 EU countries as well.

The more issues in Europe, the better the United States looks for secure investments. I expect that this will have a positive impact on the highest end real estate in cities like New York, Miami and Los Angeles as investors will feel more secure parking money in the United States.

To boot, most other countries around the world are lowering interest rates (Japan lowered into negative territory), which makes it harder for the United States Federal Reserve to raise its rates.

Almost all countries around the world are deficit spending in a big way, and as I've written about in past articles, there will be shock as nations default. Given heavy debt burdens, it is in their best interest to not raise rates because paying the treasury investors more money will necessitate more borrowing. It is a vicious cycle which will end painfully.

The world is more interconnected than ever and what happens on the other side of it, matters to everyone including those who simply own and manage apartments.



The opinions expressed in the Apartment Reporter are those of Kyle Kazan of ContrarianOmics and are not necessarily those of WASH Multifamily Laundry. Kyle is an independent contractor who is hired to provide commentary and views on the state of the apartment industry that may be of interest to our customers. Except in rare cases, WASH provides no input or editing in regards to the content and therefore assumes no liability for any loss or damage resulting from reliance upon Mr. Kazan's report.

Kyle Kazan
Chief Economist
ContrarianOmics LLC.
www.contrarianomics.com



WASH can be reached at 1-800-421-6897 or www.washlaundry.com

Reproduction without permission of WASH Multifamily Laundry Systems, LLC, is prohibited. ©WASH Multifamily Laundry Systems, LLC, 2015