THE ANALYST

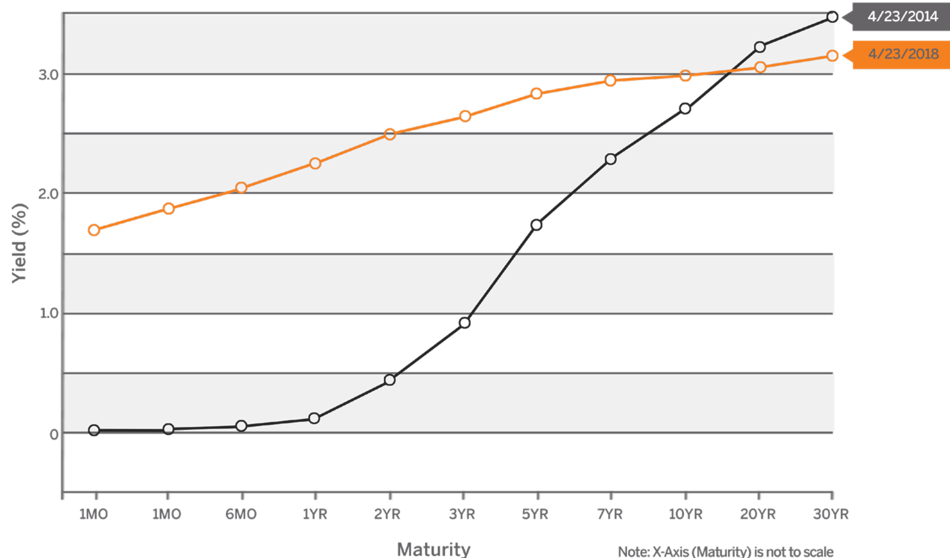
MARYLAND CAPITAL MARKET OVERVIEW

Q1 2018

INVERTED YIELD CURVE AND REAL ESTATE INVESTMENTS

An inverted yield curve is when the yield on short term bonds becomes higher than long term bonds. This has been a reliable indicator of recession over the last century.

Currently the yield curve is flattening quickly. Look at the yield curve from this month and 4 years ago.



Generally, the yield curve slopes upwards because there is more risk and uncertainty over the long run, therefore higher rates should be charged to compensate for that risk. A completely flat yield curve would mean that risk is the same over all time periods and an inverted yield curve means that there is more risk in the short term than in the long term.

What does the flattening of the yield curve and potential inversion mean for a real estate investor? It means that safety is important. Instead of speculative deals, one should look to safety of high quality assets and longer term holds. We saw this in the past few months with assets in Washington DC setting records for highest PSF sales. Many foreign investors saw real estate as a safe way to get a bond like return on their investment. Not everyone can afford $1,000 PSF investments in core locations. However, many assets are backed by recession resistant tenants and are poised to survive dips in the market. These types of assets will look great if the market takes a dip or growth significantly slows.

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