CAMBRIDGE
Realty Capital Companies

125 SOUTH WACKER DRIVE | SUITE 1800 | CHICAGO, IL 60606 | M 312-357-1601 | F 312-357-1611
WWW.CAMBRIDGECAP.COM

PRESS RELEASE

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EXPERT DESCRIBES WHY FEDERAL RESERVE BOARD IS TAKING A PATIENT APPROACH TO RAISING SHORT-TERM INTEREST RATES

Given all the positive economic news we've all been hearing and reading about, why do the Federal Reserve Board and its Chair Janet Yellen appear to be dragging their heels on raising short-term interest rates, which have been at zero since 2008?

Why are they antsy when asked to be "patient"?

Donald Kohn is the Robert S. Kerry Senior Fellow in the Economic Studies program at Brookings Institution and a former vice chair of the Fed. He says the answer is simple: Inflation, or more precisely the lack of it, at expected levels.

"There are signs that underlying inflation rates have not been moving toward the two percent target set by the Fed, certainly not as quickly as might be expected, given the approach of the unemployment rate and the capacity utilization rate towards levels that in the past have been associated with reasonably full employment," he noted.

Kohn suspects the reason that the unemployment rate we usually look at isn't representative of the true state of the labor market.

"Workers who have dropped out of the labor force during this long, slow recovery, or have taken part-time jobs when they wanted full-time jobs, are available and ready to work and are a potential source of labor supply, even though they don't count in the usual unemployment rate. In effect, the sustainable unemployment rate might be lower than we thought, at least for a while," he suggests.

Kohn says the data on wages and labor costs are actually quite mixed. Some measures show the sort of pick-up you'd expect as the unemployment rate dropped to relatively low levels. But others remain very weak.

"The Fed will no doubt be monitoring labor costs carefully to judge just how close to full employment the U.S. is," he said.

Cambridge Realty Capital Companies Chairman Jeffrey A. Davis says central bankers aren't the only ones puzzling over the latest domestic and global economic news.

"In response to all the positive economic news, there's a sort of pinch-me-if-I'm-dreaming quality to the senior care industry's response. Based on favorable demographic projections, everyone agrees the senior care industry is in for a growth spurt in the years ahead.

"But planning for this eventuality almost certainly will be exacerbated by worries about labor shortages, interest rate stability and the like," he said.

Kohn identified another problem moving forward. Current drops in energy and import prices are - or might - feed through to underlying inflation on a more persistent basis through what he called second-round effects.

"A key channel for this type of effect would be through inflation expectations. Not so much through the expectations of inflation in the near-term, which we know will be held down by energy price declines, but by expectations of inflation once the energy price decline has passed through the system. If people come to expect very low inflation over a long period, they will adjust wages and prices accordingly in a self-fulfilling feedback.

"The evidence here is also mixed," Kohn said.

According to Davis, when inflation comes, rising interest rates are sure to follow closely. For senior care borrowers, this specter might be something to consider down the line when it's time to refinance a new construction loan.

"It may take the Fed several months to patiently sort through the evidence on inflation. At this time, patience and prudence may be sound advice for healthcare borrowers as well," he said.

Privately owned since its founding in 1983 as a real estate investment banker specializing in commercial real estate properties, Cambridge today has three distinctive business units: FHA-insured HUD loans, conventional financing, and investments and acquisitions. The company is one of the nation's leading nursing home, assisted living and healthcare debt and equity capital providers, with more than 400 closed transactions totaling more than $4.5 billion since the early 1990's, when the firm began its specialization in providing senior housing capital.

Cambridge has consistently ranked among the country's top five FHA-insured HUD lenders (now HUD LEAN) over the last 15 years and offers an array of conventional lending options, including permanent construction and interim loans on either a floating or variable rate basis. The company's principal investment strategy includes direct property acquisitions and joint ventures, sale/leasebacks, conventional and mezzanine debt financing, and the acquisition of distressed debt.

Cambridge is the creator of *The Signature Experience(TM)*, a four-step process designed to transform the traditional lender/borrower relationship and identify "ideal" capital solutions for worthy projects. The company has a national origination office in Los Angeles, and numerous correspondent and brokerage relationships nationwide.

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Contact:
Evan Washington
Phone: (312) 521-7610

Fax: (312) 357-1611
E-Mail: ew@cambridgecap.com