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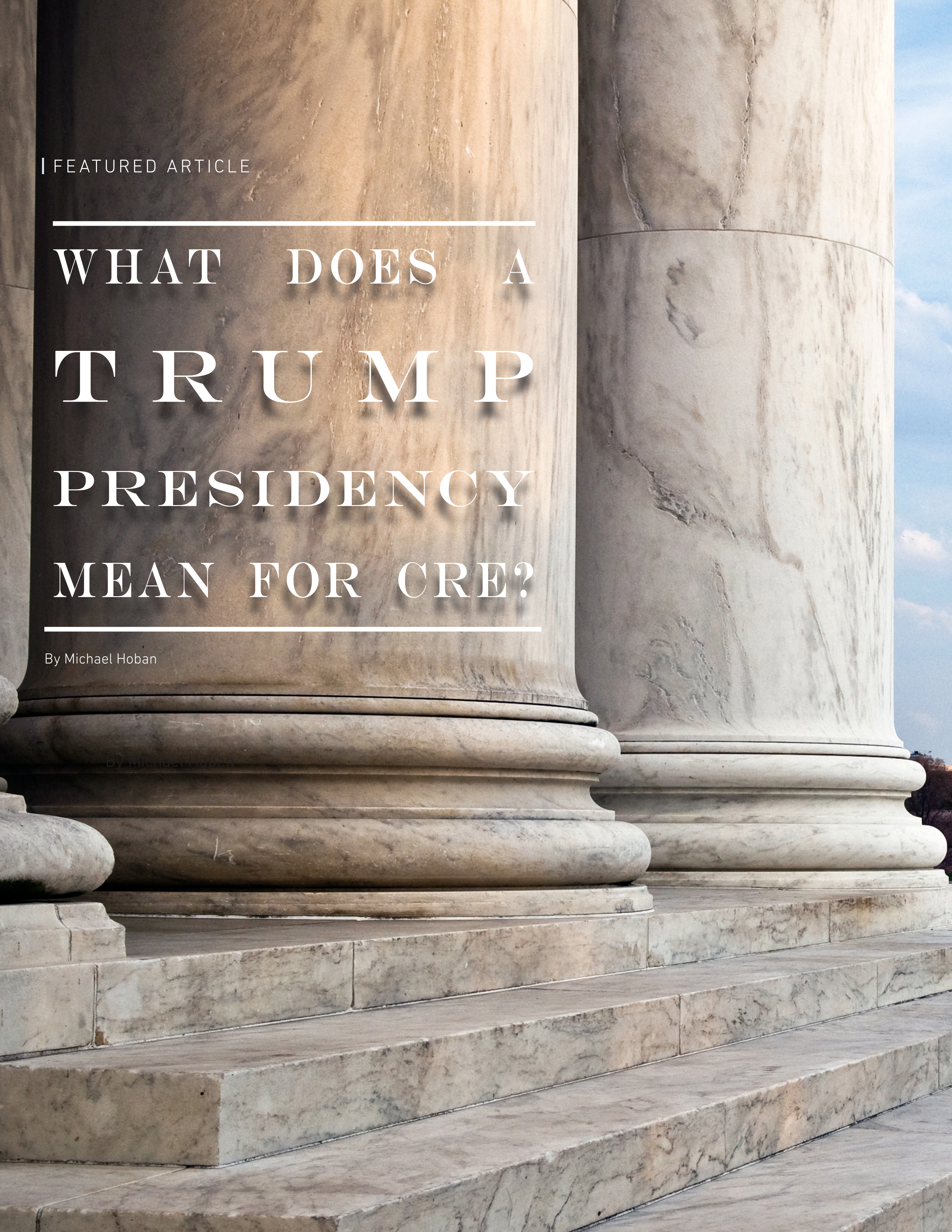
WHAT DOES A TRUMP PRESIDENCY MEAN FOR CRE?

By Michael Hoban



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Concerns Over Immigration Policy, Travel Bans Temper Optimism

In the days following the election of Donald Trump as president, there was rejoicing in many corners of the commercial real estate world. With one of their own at the helm, the slow but steady growth in the fundamentals that the industry has enjoyed since coming out of the recession would accelerate dramatically. A reduction in the top marginal income tax rates, capital gains, and the corporate tax rate, as well as the easing of banking regulations and financial industry reforms, would spur greater activity in the capital markets, boosting development and investment in real estate.

Six months after the inauguration – despite a less than smooth transition by the new administration and issues with immigration policy and travel bans that are projected to have an adverse impact on the economy – real estate professionals remain guardedly optimistic.

“Like Donald Trump or not, he will be good for real estate,” opines R. Donahue “Don” Peebles, founder, chairman and CEO of The Peebles Corporation, which developed and owns a multibillion-dollar development portfolio of luxury hotels, high-rise residential, and commercial properties in New York City, Washington, D.C., Philadelphia, Las Vegas, San Francisco, and Miami Beach. “There’s an advantage to having a real estate developer in charge of the country.”

Peebles made his remarks at an early spring Bisnow event in Boston that focused on the effect that the Trump presidency is expected to have on commercial real estate. The lifelong Democrat, who served as a member of President Obama’s National Finance Committee, explained his seeming political incongruity this way, “I practice Henry Kissinger’s philosophy. He once said, America has no permanent friends, no permanent enemies, just interests. And I practice politics that way.”

Politics aside, what primarily drives the optimism of Peebles and others in the industry are two central planks of the Trump campaign that were particularly appealing to those in CRE – across the board tax cuts and financial deregulation. If those objectives are met, one of the key areas that would be improved under a Trump presidency would be that developers could deliver more housing.

According to Peebles, the current tax burden makes it almost impossible to build multifamily or condos in anything but gateway markets, where the profits are still significant enough to shoulder the heavy tax load. That development model has created a shortage of multifamily inventory in non-gateway cities and a growing inventory in the markets that can afford to pay the high prices, as

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well as a shortage of workforce housing in many of those gateway cities.

By taking the top personal tax rate down from 39.6 to 30 (or 28) percent, significantly reducing capital gains, and lowering the corporate tax rate from 35 to 15 or 20 percent (although the lower figure is unlikely to be passed by Congress, according to tax experts), combined with a loosening of financial regulations, Peebles believes that "those will be kick starts for our business because it will make deals on an after-tax basis more attractive."

Despite Peebles' enthusiasm for the economic policies that he expects the president to enact, he also expresses trepidation over Trump's proposed travel restrictions for foreign citizens. "I think the fear of these travel bans for certain foreigners (are having an impact)," says Peebles, citing a drop in room rates and occupancy in hotels in cities that typically draw large numbers of foreign visitors. "One of the challenges is that if people are coming here to invest money, they want to come to a hospitable environment, and that's a concern."

SIOR President Geoff Kasselman, SIOR, LEED AP, executive managing director with NGKF in Chicago, echoes Peebles' sentiments, stating that he has "significant concerns" based on his recent trips abroad. During a spring visit to Switzerland, he spoke with a number of citizens of foreign countries, who said that they "had no interest" in coming to the U.S. while the immigration policy is so unsettled and risky. "The full impact of this broad global sentiment will absolutely be felt domestically in the near term," he asserts.

But like Peebles, Kasselman sees many positives to the Trump presidency – along with a number of reservations. The Trump administration has created an allure of opportunity, he says, particularly for industrial real estate with its "Made in the USA" mantra, the promise of more infrastructure spending, and less regulation. "But at the same time, the administration has sent a mixed message with increasing interest rates, a promise of global trade agreement restructuring, import tariffs, political scandal, global destabilization, and overall uncertainty," says Kasselman. "So for the time being, it is a net neutral for the marketplace, which will be taking a 'wait and see' approach."

That approach is also being adopted outside the U.S. as well, with the initial impressions from Canada and Europe being largely positive – anticipating tremendous potential opportunities within their own countries as a result of Trump policies being enacted – and an understandably less enthusiastic response from Mexico.

Up north, Trump's immigration policies are expected to have a positive impact – for Canada. Doug Murray, SIOR, Canada Central Chapter president (and Colliers International VP), says that tightening of immigration policies in the U.S. may lead to more high-tech and knowledge-based jobs coming to Canada. "With the current immigration debate and rhetoric in the US, the consensus is that many highly-skilled immigrants – particularly from Muslim countries – will favor Canada as their destination of choice," he maintains. "If you subscribe to the theory that companies locate in major talent pools for employee attraction/retention, it will logically follow that Canada will benefit from increased corporate investment to tap into that human resource."

But Murray is also concerned that radical modifications to NAFTA or other protectionist policies could dramatically hurt Canadian industries, as U.S. is by far Canada's largest export market (U.S. goods and services trade with Canada totaled an estimated $662.7 billion in 2015, according to Export Development Canada). Political pressures to keep investment in the U.S. could also influence major corporations with significant operations in Canada (such as auto manufacturers) to freeze or decrease investment in Canadian operations.

Rob Cressaty, SIOR, MBA, managing partner and president of Landmark Advisory Services Inc., and SIOR Canada East Chapter president, feels that major investment in American real estate will continue to occur, albeit with a keen eye on Trump's policies as they are announced (particularly NAFTA) and rolled out over the remainder of 2017 and beyond. "If we are to speculate, the focus of President Trump on improving the

American economy, particularly by creating jobs, should only positively affect commercial real estate by increasing demand for space, thus increasing revenues and values of properties," says Cressaty. "This will only make American real estate more attractive to foreign investment, and Canadians are proven buyers across the United States."

Over in Europe, Renata Osiecka, SIOR, MRICS, managing partner at Axi Immo in Warsaw, Poland, and SIOR European Regional Chapter president, believes that the uncertainty created by the Trump presidency could cause global capital to reconsider placing their investments in the U.S. "Investors look for stability and security in their investments, which the European market can provide, especially in Germany, Switzerland, France and the growing markets in the CEE region. In a way, President Trump's uncertain administration may turn out to be beneficial for the European market and encourage more investors to invest in European properties."

South of the border, Mexican CRE professionals are rightly troubled by the presidency of Donald Trump, beginning with his disparaging remarks about the country during the presidential campaign and continuing post-inauguration with his policy decisions – ones that are largely based on misinformation regarding trade with Mexico as well as the outsourcing of jobs (as far more are going to China than Mexico).

Jose Gonzales Rondon, SIOR, executive director with the Mexico City office of Cushman and Wakefield and president of the Mexico Chapter of SIOR, says that the "Trump effect" began even before he was sworn in. "Basically, Trump's ideas and campaign promises have impacted the Mexican market already, since most of transnational and national manufacturers that were planning to start operations in our country have put their plans on hold until they have certainty on the way NAFTA will be renegotiated," says Gonzales. "And I believe this period of uncertainty will take (up to a year) since the new American administration has to understand all the implications of the free trade agreement, policies, chapters, amendments, etc."

So will Trump's and the Republican Congress' aggressive overhaul of the tax system and the dismantling of financial reforms be enough to offset the deleterious effects of immigration policy and travel bans?

Only time will tell. ▽