2020 ELECTION YEAR IMPACTS

By Steve Lewis | Sponsored By SIOR Foundation

Common wisdom says that economies stay strong during election years, because the party in power, well, wants to stay there.

But sometimes things happen beyond even the control of the federal government, so there is always a bit of nervousness as election years unfold. This year, for example, there has been talk of how tariffs and trade wars might be bad for business, but also about the benefits to the economy from lower taxes. As with the population in general, SIORs have differing views, affected naturally by the area of real estate they're in, as well as the strength of their market. Add to that the philosophical approach they take to things in general, and you get an interesting mix.

"We've had pretty significant budget austerity over the past decade, primarily due to rising debt relative to GDP," notes Kurt Stout, SIOR, executive vice president Government Solutions for Colliers International in Washington, DC. (Stout's niche is federal government leased space, which, he says, generates "significant investor interest" because the lease contracts are signed in the name of the United States of America.) "This singular trend has put a lot of pressure on federal agencies to reduce costs—including real estate costs. Since the government is not actually getting smaller, real estate cost reduction has been pursued primarily via workplace reconfiguration and downsizing."

Stout believes this cost reduction pressure is likely to continue through the next election, regardless of the election outcome, "because the focus on reducing federal government real estate costs has traditionally had bipartisan support.

"However," he adds, "this election features candidates with 'bold' progressive spending plans that would naturally inflate the size and role of the federal government in ways that would induce inventory growth."

Landon Williams, SIOR, senior vice president Capital Markets, with Cushman & Wakefield in Memphis, Tenn., is concerned about tariffs, but not overly so. "It is important for the commercial real estate industry that a favorable agreement is ultimately reached," he says, "but whether the deal gets done now or further in the future, commercial real estate investors will adapt. It would certainly be ideal for an agreement to be reached as soon as possible, but of highest importance is that a favorable deal gets done even if it takes time."

"Commercial real estate brokers are able to add the 'most value' when change is happening in the industry..."

Jeff Levin, real estate investor and founder of Specialty Lending Group, is less sanguine about the tariff situation. Writing in a post for Forbes entitled, "Four Ways the Trade Wars Are Undermining Commercial Real Estate," he said: "The uncertainty associated with real and potential trade wars is having an effect on our economy."

Levin cited the following ways in which trade wars have hurt commercial real estate:

- Trade wars helped close the spigot for Chinese investment.
- Chinese sell-off is depressing prices for some classes of CRE.
- Prices are climbing for steel, lumber, and other construction materials.
- Disruption in materials—and labor—are causing construction delays.

"We don't always think of CRE projects as being subject to global trade, but today's economy is complex," Levin wrote. "Much negotiation is needed before peace will come to these trade wars, and given the political environment, it's safe to assume the volatility will continue. Naturally with this volatility comes opportunities and risks that lenders and borrowers alike had best keep in mind as they venture into new CRE projects."

But for Matthew Cravey, SIOR, president of Cravey Real Estate Services, Inc., Corpus Christi, Texas, it's a matter of attitude. "What I've noticed in anything political is it's really about the customer and how they see the world," he says. "If I'm dealing with someone who's very positive about life, a lot of this noise going on doesn't bother them; they see the silver lining. If everything goes to hell, fine, there ought to be some good deals to be found. If not, I'll make money now."

However, he continues, there are also the "worry-wort" customers. "They listen to everything, and in a decision, they're scared to death that whatever they do could be the wrong move," he observes. "With those people, if they don't trust me enough to use my guidance, then I pretty well don't spend much time with them."

For Cravey it's all a matter of "turning that stuff off and realizing there are some good opportunities." He offers the following example: "When Carter was in office, interest rates went up to at least 18%," he recalls. "It took us a little while to adjust to the new norm, but the next thing you know I made all kinds of money—and so did my clients—once I learned the rules of the game. Just tell me the rules, and I'll figure out how to do it."

He did have one "caveat," however. "Back in the '80s they changed the tax laws and made them retroactive; in Texas that affected the oil business, which affected real estate, which affected banking. Everything went down in Texas. So, the biggest fear when I operate is, 'Are they talking about anything that's retroactive?'"

And the crystal ball says . . .

These three were happy to drill down and share both their expectations for the election year and in some cases, their strategies for addressing them. "With [2020] being an election year and with how politically charged everything is right now, I've heard expectations of a potential slowdown of investment deals the closer we get to the election based upon a 'wait-and-see' approach by the market," says

Williams. "For investor clients already planning to take a deal to market, I've been recommending they launch the deal in Q1 of 2020 to get out in front of any potential slowdown."

However, he asserts, "commercial real estate brokers are able to add the 'most value' when change is happening in the industry—whether it be positive change or negative change. Consequently, it's important we pay close attention to the international trade negotiations as well as to other key economic policies that may affect the market. Simply by staying aware of these macro developments, we're in a better position to guide our clients in achieving their real estate investment goals."

"Neither party has shown much fiscal discipline recently," says Stout. "However, real federal government growth is far more likely under Democratic leadership." These proposals, he says, "are more ambitious than any in the modern era."

Accordingly, he predicts, "there is going to be substantial real estate demand to house the administrative infrastructure needed to deliver [increased entitlement] payments."

If President Trump remains in office, while his administration has made several efforts to downsize and reorganize the federal government, Stout says some of these efforts have been thwarted by Congress. "But on the margins, the Trump Administration has been able to achieve some of its goals through executive decree," he asserts. "Trump will continue to employ this technique, but it doesn't seem likely that it will cause significant deviation from the current trend."

All candidates, he summarizes, have "grand" infrastructure spending proposals—regardless of party. "That sounds encouraging for the economy generally, but for investors of government-leased properties it could have negative consequences if these infrastructure bills finance the construction of new federal buildings or the rehabilitation of existing ones," Stout says. "Either circumstance would siphon demand from leased buildings, which the government views to be more costly."

"As long as Trump is in there—and he's a businessman—I can't picture in my mind him letting [tariffs] go to the point that we all get hurt too bad," says Cravey.

However, he adds, "only naïve people do not have a fallback." And his fallback is? "I talk about being a pure broker; I pay attention to everything," says Cravey. "My kids laugh at me because I watch every kind of show, I read different things—even if they're different from my own view. I want to make my own decision and I do not want any one side to decide for me, so my fallback position may be that I know from experience that lenders are usually only around when the sun is shining. When it starts raining on us, I tell people to make sure they're not stretched too thin. If you're a tenant, make sure you have some money or credit to take care of opportunities; maybe someone is going out of business. For example, when Toys 'R' Us closed it became one of the hottest places in town."

The Future is Bright

From where he sits in Corpus Christi, Cravey says, "Everyone feels good about the future. When you get a vacant store in a building it does not sit very long."

Of course, the city seems to have a lot going for it. "We have over $60 billion worth of plants and projects under construction," says Cravey, noting that one is a $13 billion joint venture between Saudi Arabia and Exxon.

"We're taking advantage of the cheap natural gas that comes down here," he says. "Materials went up when Hurricane Harvey hit, and they haven't gone down. We have a shortage of concrete because of all these new plants."

But the city has prepared well for the future. A billion-dollar bridge was built, the port was widened, and the specs mirrored those of the Panama Canal. "Our port was smart enough to realize what specs to use, how high the bridge should be, and how wide and deep to make the port," he says.

But he is not without caution. In fact, he shares, "When [customers are] selling now, I say instead of doing a 1031 exchange it may be better to pay the taxes and have cash." Still, he insists, "Opportunities will come up when they start messing with things. Most everyone who's been in this business any length of time believes politicians can't leave things alone—but every time, it creates opportunities."

And the tariffs? "The attitude here is this thing with the Chinese will work itself out," says Cravey. "Things will work out—they just have to."

MEET THE AUTHOR

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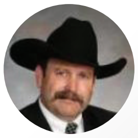

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