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# THE TRUMP FACTOR

By Steve Lewis

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No market likes uncertainty, and while the uncertainty over who would succeed Barack Obama as president no longer exists, there is apparently still uncertainty among experts over what the election of Donald Trump will mean for the world, for the U.S. economy, and more specifically, for commercial real estate. Not surprisingly, a slew of business and real estate experts have been holding forth on their expectations, and there is anything but consensus on what the Trump era will bring.

The uncertainty relates not only to which campaign promised the new president would be able to fulfill, but also to exactly how the markets will react to them. Will he be able to cut the corporate tax rate to 15 percent? What would it mean if he did? Will it make more of a difference that he is a real estate developer, or that he is a businessman? What new legislation will he be able to pass, and how will that affect the commercial real estate market?

While Trump's victory initially propelled the stock market to new heights, at the end of January and in early February the market began to retreat. He certainly has demonstrated the ability to impact the price of individual stocks – but again, is that a good thing, or does it create the potential for volatility?

So, beyond the initial assumption that a successful real estate developer should be good for commercial real estate, SIORs, like other experts, can be described as cautiously optimistic, taking a “wait and see” attitude toward potentially major changes.

And that seems to make good sense, with the future uncertain and the present changing dramatically day-by-day. President Trump has been actively fulfilling campaign promises with a series of Executive Orders. For example, a signing in favor of the Keystone Pipeline is believed by some to be a major job creator, and by others, a threat to the environment that will only create a small number of permanent jobs. Another took us out of the TPP; will that bring more jobs back to the U.S., or turn Asian business over to the Chinese? Even his recent travel ban on citizens of certain countries could impact the economy – the real crux of the future for commercial real estate – according to criticism from Silicon Valley. The president's meetings with leaders from Big

Pharma, major unions, and others have won high praise from the participants.

But the bottom line, as President Obama learned, is that the most meaningful change comes not from Executive Orders, but through legislation, and no one can predict what Congress will or will not pass. It is through this veil of uncertainty, then, that we have asked SIORs to peer into their “crystal balls” and offer their opinions on what impact the Trump presidency may have on CRE.

## The Initial 'Bump'

Has the initial optimism that was seen in the stock market been reflected in real estate? Sheldon Johnson, SIOR, CCIM, vice president of the Johnson Group, St. Louis, sees “an air of enthusiasm” in his market. However, true to the adage that “all politics is local,” he is equally excited about the election of Missouri's new “pro-growth” Governor. “Local and national developers are busy planning new state of the art facilities and broker activity has been very active since the election,” he observes.

But Brett Preston, SIOR, CCIM managing partner of Cushman & Wakefield Pires International, El Paso, acknowledges a “guarded optimism” in his market. “We have seen investment prices hold,” he says noting that the rise in core interest rates has put pressure on capitalization rates. His clients, he says, hope that taxes not only go down but that the tax codes will be simplified.

And Gabriel Silverstein, SIOR, managing director, director of Capital Markets, SVN | Angelic, in New York City, says he has yet to see any specific impact that he would attribute to the “Trump Factor,” although he has seen a firming up of overall confidence in the economy and the market in general. “I would argue

that frankly with many political elections many often times it doesn't matter who wins, but whether uncertainty is removed,” he says. So, for example, while the stock market is strong, the bond market (and interest rates) has responded dramatically. “In the short term that has some negative impacts on real estate,” he asserts.

But David L. Liebman, SIOR, JD, LEED Green Associate, managing broker with Merit Partners, LLC, Chicago, sees uncertainty as a positive. “I think [Trump's election] will hasten some deals because of the uncertainty, especially what's happening to inflation,” he says, noting that some investors are thinking, ‘Why wait until the rates go up?’

And yet for George Pino, SIOR, RPA, president of State Street Realty in

Doral, Fla., economic uncertainty could actually benefit CRE “U.S. commercial real estate appears on track to continue to be a safe haven,” he notes.

## 'One of Our Own'

One place where the uncertainty stops is whether someone familiar with commercial real estate will be positive for office and industrial real estate. The general feeling is that because Donald Trump understands the challenges that commercial real estate investors and developers face, his policies will be aimed at reducing some of those challenges.

“He certainly understands the market and how it works; any kinds of policies that might negatively impact CRE like capital gains rates I think will be pushed down,” says Liebman. He adds that if a Democrat had been elected the opposite might have happened. Liebman also believes that Trump's ability to intimidate companies will keep more jobs in the

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U.S., which in turn would have a positive impact on real estate. “If he is successful in job creation it will be a significant upmarket for commercial real estate,” he notes.

W. Bryant Cornett, SIOR, president of Dudley Thomas Spade SRE in Atlanta, agrees that job creation will be critical although he’s not sure Trump will succeed. “Is Trump the person that breaks the code, pulls the lever, and all of a sudden the assembly line runs and jobs come out the other end?” he challenges.

Silverstein believes the new president’s familiarity with real estate, as well as the impact of government, will be helpful. He recalls Rudy Giuliani speaking about cleaning up the New York streets, saying that a sense of stability among tenants and owners leads to great investment, rising values, and more jobs. “I think Trump understands the symbiotic relationship between good government and CRE investment and values,” says Silverstein. “If you have a bad economy, and things are dangerous, people will not come to your country, go to your hotels, etc.”

“Donald Trump’s familiarity with commercial real estate and current bank

and tax policies will help propel small and large businesses forward,” predicts Preston. He says Trump’s proposals for tax simplification alone will be a great benefit to business and subsequently, commercial real estate.

But Liebman is not sure, doubting, for one thing, that lowering the depreciation rate will actually occur. “He may just sit back and watch, which will cause possible conflict,” he says.

Pino asserts that the commercial real estate market potentially could stand to benefit from a president who is intimately familiar with the ins and outs of the real estate industry, partly through favorable tax rates and financial legislation. “Donald Trump isn’t just a business-minded president — his business is commercial real estate,” he notes.

### Legislation Holds the Key

SIOR agree that the impact of a Trump presidency on commercial real estate depends on what legislation is passed — and what occurs with existing legislation. For example, what will happen with the A.C.A., or “Obamacare?” There

is disagreement over whether it is costing jobs, for example, but there is no doubt that it is the source of much uncertainty. If it is repealed immediately, which many expect, but its replacement is several years away, how will the insurance companies react during the interim? What about employers?

The A.C.A. has a particular impact on Cornett, whose clients are healthcare organizations and governmental entities. They have spent an inordinate amount of time creating the ability to measure things the A.C.A. has required, and “Now we are rolling them offline and there is possibly someone who may do things differently.” Based on the fact that it’s virtually impossible to stop a “ship” as large as healthcare and turn it on a dime, he says most of his clients have opted to stay the course.

The new president’s policy on infrastructure also has Cornett a bit uncertain, because he fears that Trump’s concept of infrastructure may or may not be the same as his. “Does it mean more roads? Dams? New monuments in Washington?” he poses. “But it could also be systems and people. Everyone hopes he can really get job creation started.”

Johnson is more sanguine. "The reform in the Consumer Protection Agency, repeal of Dodd-Frank, and replacing Obamacare will increase lend to commercial projects and decrease healthcare costs to businesses," he predicts, which in turn he says will encourage job growth by reducing operating costs to all employers.

Silverstein believes the upending of Dodd-Frank "could have a very beneficial impact, as the last three years of its gradual implementation has not been positive for the commercial real estate world, particularly as it relates to the way money flows through lenders." He specifically noted, for example, the new risk retention rule.

Pino is convinced that changes to Dodd-Frank will occur in some form. "With less regulatory burden, small community banks can make more loans and that will boost commercial and home building activity," he predicts.

"Anything he does to maintain current depreciation rules and not negatively impact cap gains" would help, says Liebman, as would changes in the policy of heavily taxing offshore revenues. "If we can repatriate those monies it would be a big boom to commercial real estate," he says.

For Preston there is no specific legislation that will change things, but rather a series of actions. The decisions that the new administration makes toward NAFTA and any other trade pacts, he says, "may have more far-reaching consequences than any particular piece of legislation."

## Market Should Retain its Strength

Despite the uncertainty that comes with every new presidency, SIOR's by and

large expect the market to remain strong due both to the basic market strength and recent trends. A business-friendly approach by a Trump presidency would be icing on the cake.

"The upswing has been very slow in the Midwest but it should increase at a higher velocity with Trump and Congressional changes," Johnson predicts. He expects construction to increase in all sectors to meet the job growth that has been below the national average for more than 20 years. He also expects Missouri to become one of the leading job creators in the country, which in turn will increase real estate values. "No new office tower has been built in downtown St Louis since 1989 and this will surely change as long dormant plans are now ready for construction," he notes.

Preston anticipates lower capital gains, more sensible taxation, and depreciation policies and a more optimistic outlook on the economy. This, in turn, should lead to commercial real estate enjoying "a strong sustained growth period," he says.

Since Atlanta entered the market upswing a little late, Cornett notes, "I feel we have a little bit more run in it." In addition, he says, if Trump starts to remove regulations it could lead to "an incredible expansion" of the U.S. economy, and then commercial real estate "catches fire."

Silverstein, on the other hand, sees a mixed bag. He is concerned that with a president who is less positive about global trade, foreign investment could be dampened. On the plus side, however, are his positions on taxes and regulations. "In 2013 I said I see a downturn in 2018; I'm still comfortable with that," he concludes. ♥

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