



THE

OBAMA

By Steve Lewis

EFFECT



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SIORs See Slow Growth Continuing in Wake of the Election; Second Half Looks More Promising

The re-election of President Barack H. Obama, while eliminating some of the uncertainty that has been plaguing the business community and thus the commercial real estate industry, will not lead to any immediate improvement, say SIORs. However, several are optimistic that things will pick up in the second half of 2013.

“Locally, I think his re-election will have a negative effect as far as hiring—especially in our market, where we have the highest unemployment in the country,” says **Soozi Jones Walker, SIOR CCIM**, president of Commercial Executives in Las Vegas, NV. “Without jobs there is no need for commercial real estate; you need jobs to fill the vacancies we have,” she adds.

“In general, I think the business community is still trying to wrap its hands around this question,” adds **Jeff Hoffman, SIOR, CCIM**, vice president of Judson & Associates, s.c., in Peewaukee, WI. “In the near term I believe that we are going to see stagnation within the marketplace as the business community is met with the likely prospects of more regulation, taxation, and the Affordable Care Act. There has been much consternation about regulations such as Dodd/Frank and the Affordable Care Act; however neither of them has really been rolled out yet.” Dodd/Frank, he notes, is “a massive regulatory overhaul of the financial sector that even financial industry experts have a hard time explaining.” He says the energy sector also faces uncertainty “from an EPA that has promoted an agenda against carbon based energy and an interest in wrestling regulatory powers of the fracking industry away from the states.”

However, Hoffman does believe things will look brighter for the second half of the year. “Once the landscape of the second term of President Obama starts to take shape I am expecting businesses to start spending again,” he predicts. “While there are certainly many

challenges that are facing the U.S. economy, I believe that, given the massive stockpile of cash that is sitting idle on the sideline, coupled with record low interest rates, that the Fed will ensure with a perpetual QE policy. The business community, adjusting to the hand that it has been dealt, will make appropriate investments within their business units as the alternative to sitting on that cash—which makes little sense. The U.S. is also in the midst of an energy boom, that according to the IEA, could lead to energy independence for the U.S. by 2020. This has the potential for a huge positive impact on the industrial real estate market as cheap natural gas is a critical element to manufacturing operations—and there are also countless manufacturing suppliers to the shale industry that stand to benefit.”

Walker believes the fact that since the election was so personal, it has left many in the business community with a lethargic attitude. “They are a little wiped out; it will take the first six months to get our sea legs back—to at least say that we know where we’re going, so let’s get on with business,” she shares. “There’s a decision-point that comes with stability—whether you like it or not—and then things can get going.”

Meanwhile **Danny Zelonker, SIOR, CCIM**, Broker Associate with Mizrach Realty Associates in Miami, actually saw some short-term positive impact from Obama’s re-election. “It’s been helping me because capital gains looked to be going from 15 percent to 23.8 percent, so we closed a lot of deals before December 31,” he notes. In fact, he adds, he has personally cashed in two or three of his mortgages in order to pay a lower capital gains rate. “This was a record year for me in commercial real estate; we did as much in the last month as in the beginning of the year,” notes Zelonker.

He adds that he’s heard of a number of people closing partial escrow before the end of the year and planning to pay taxes by April



Kevin C. Geenty, SIOR



Jeff Hoffman, SIOR, CCIM



Soozi Jones Walker,
SIOR, CCIM



Danny Zelonker,
SIOR, CCIM

15, 2013, believing they can use 2012 as a sale date. Zelonker also believes that 2013 will see increased popularity of 1031 exchanges.

However, adds **Kevin C. Geenty, SIOR**, vice president of The Geenty Group Realtors in, Branford, CT, "I feel strongly that had Mitt Romney been elected we would have seen an immediate uptick in the nation's economy that we won't see due to the President's re-election."

Avoiding the "Cliff"

One of the consequences of the President's re-election was continued political wrangling over the "fiscal cliff," and while agreement has since been reached on the tax component there are more negotiations to come – not only on the "cliff" but on the deficit and the overall budget and economic strategy going forward. This, too, has SIORs concerned.

"If the fiscal cliff is not avoided, yes, it will provide additional damage to our national economy," says Geenty. "However, I am confident that the two parties will do what they need to do to avoid the cliff."

Walker is not so optimistic. "I think the cliff is political, and will affect everything on a short-term immediate basis," she says. "Financially it will hurt in the short term; it's not like a battleship can stop dead in the water—we will have to have time to fix it."

"For my own personal business I will tell you I do not make decisions based on political whims," she continues. "My goals have remained stable all along, but I sure see an impact with clients. In Nevada we are very tax-averse—we do not have state income tax. Because of that the type of businesses we move here are very tax-sensitive. There were a lot of people looking at possibly expanding into our market who are waiting to see what will happen with healthcare and income taxes. In some cases they have decided not to expand or not to bring manufacturing they had oversees back locally."

"In general I think many business leaders have grown beyond frustrated with the inability of our political class to get serious about problem solving," adds Hoffman. "While I have several clients that hold their businesses in a fashion that they pay taxes on a personal pass-through basis, most of them understand that the U.S. fiscal position is very tenuous. If there was a credible plan presented that reformed entitlement spending, with the tradeoff of higher taxes/lower deductions, I think a good deal of business people would get behind it. Minus entitlement/spending reform, the additional tax revenue from the wealthy is inconsequential to the future U.S. debt obligations. If a balanced plan for deficit/debt reduction is not incorporated with higher taxes/fewer deductions, I believe the business community will take this as a sign that the U.S. is headed toward the malaise of the European Union, and they will adjust their growth plans accordingly."

Planning for Uncertainty

While the future remains uncertain, plans must still be made for the coming year. How are SIORs positioning



"...we know where we're going, so let's get on with business..."

their operations? "My short-term and long-term planning is centered on doing the best I can for my associates and my family," says Geenty. "I have no reasons to anticipate a really good or super year in 2013; however, I hope that by working smart and putting in long hours, 2013 will be an okay year."

"I believe that the next couple of quarters are going to present limited opportunity for fixed long-term capital intensive expansions," adds Hoffman. "I am seeing several users in the market satisfying their immediate needs with short-term lease space that allows the business to fulfill its immediate capacity constraints without taking on fixed overhead. I am personally trying to educate my clients and prospects on the bigger picture that is going to exist once we get through the next couple of quarters. Given the strength of manufacturing in the state of Wisconsin, industrial real estate vacancies have declined to 6.7 percent and quality product is scarce. The companies that are not planning for the bigger picture are going to be left with a choice of inferior inventory or the possibility of higher pricing of new product due to the limited supply."

"I think 2013 will be tough for a lot of people," says Zelonker. "I work with distressed properties, which I think will be steady—we won't set records but it won't be a bad year."

Hoffman asserts that the future of the industry remains dependent on whether the two parties can come together on a long-term plan to address the economy. "Long-term capital intensive investments will be pushed until the landscape of what the next four years are going to look like becomes clearer," he observes. "Once, and if, the rules of the game are established, I am expecting the second half of 2013 to have substantially more long-term capital coming into play. In the Wisconsin market right now there are several sizable manufacturing firms that are considering site selection needs; however, relatively few of these deals seem to have urgency to get done given the present uncertainty that persists in the market. There is enough activity in the market to suggest that the tail half of 2013 could be very strong for industrial real estate in the state of Wisconsin."

In speaking with each SIOR, there was a definite sense of relief that the election was finally over. Not because one candidate won over another, but because it brings some definition to the political and economic landscape, and allows SIORs to just get on with business as usual. 