



CELEBRATING
55 YEARS

nerej

Short term volatility has long term impacts on real estate - by Daniel Calano

September 13, 2019 - Appraisal & Consulting

Daniel Calano
Prospectus, LLC

You've probably noticed recent dramatic volatility in everything from politics to money markets to overall attitude. Some has been brought on by tweets, overnight policy changes, and some by news reporters' viewpoints. One day it's positive; next day it's negative. What makes me crazy nervous is the steepness of those changes and how easily markets can be wracked. It seems like everything is constantly on a precipice, waiting to fall to one side or the other, or climb to new heights. Business leaders have to react quickly, to adjust. Politicians change more than the usual flip-flop, and the stock market swings 500 - 1,000 points a day, up or down.

It's a good thing that real estate is such a solid, steady, bricks and mortar industry. It takes long time frames to acquire property, permit them, construct them, and lease them up or sell them out. We plod on, unaffected by the enormous whipsawing going on in the rest of the world. Or do we? While our time frames are long, protracted, and sometimes tedious, is it possible that the daily volatility in other markets won't or shouldn't affect our thinking? Let's do a deeper dive, with a couple of examples.

Most will agree that the President's short-term sporadic tweets, often conflicting, can move markets, change fiscal policy, and impact the attitude and behavior of world leaders. That said, without getting too political, it appears that at least one of President Trump's goals is to ensure that the economy is strong for the next election cycle. To help ensure this, as one strategy, he has put unrelenting pressure on Fed Chairman Powell to keep the short-term borrowing rate extremely low. Normally, this might not directly impact long-term rates, which we real estate people are more sensitive to. However, in this case, for whatever reason, it has dramatically impacted long-term rates. The inversion curve you all hear about is when the long-term rate is actually lower than the short-term rate, signaling that people believe the economy will weaken in the long term. This may be beneficial to long term borrowers, but it is feared by economists who believe it signals a recession. In any case, we are impacted.

Another example, the tariffs on Chinese goods may be well deserved, but it is dramatically impacting global stability in supply chains. Regardless of how it works out, companies are already shifting out of China and into other countries to hedge their bets. How does it impact us in the stable realm of real estate? Think steel to begin with, then electronics, robotics technology, machinery and so on. Real estate cost estimates and pro formas could change dramatically over the short term, not to mention shipping, timing, and all other parts of the supply chain.

One can argue about the upside and the downside of so many seemingly short-term factors, and their ramifications are not always in synch. Some will always benefit; some will not. Unintended consequences, unforeseen consequences are looming in every action we take. Since it is too complicated for even the best experts, one can only say that the direct and so frequent manipulation of so many economic factors will cause great confusion, if not systematic changes, in our capitalistic system. Remember the days of historic rehabilitation of buildings and their abundant federal historic tax credits. Investors could put in a dollar of capital, and get two back in tax savings. It helped restore some beautiful buildings and some depressed economic areas, but when rent levels did not go up as predicted, these properties could not be sustained at market levels, and routinely failed.

No one can foresee how so many little changes made, with such velocity will ultimately play out. We will try to stay nimble, but the take away is our stable long-term real estate industry actually can be affected in a very short time frame.

Daniel Calano, CRE, is the managing partner and principal of Prospectus, LLC, Cambridge, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540