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How commercial real estate is impacted by politics

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We are emerging from one of the most lenient winters in recent memory to the spring season of politics in an election year. The entire spectacle of a presidential election year is accompanied by speculation on what a change in political parties (on both the national and local level) might bring to our lives and businesses. In particular, how might the feasibility and value of commercial real estate be impacted by political changes emerging from the 2012 election year? These ideas are intriguing, especially in light of recent economic challenges and the nascent economic "recovery."

In thinking about this month's article, the political "theatre" reminded me a key principal prominently expressed in the first week of real estate coursework at the University of Wisconsin -"the Real Estate Process is the dynamic intersection of three major groups - space consumers, space producers, and the public infrastructure group". (Prof. James A. Graaskamp, CRE).

We know we are aging when we look back and see how much "things stay the same"! The emphasis on the political elements in the creation of a successful real estate transaction continues to be emphasized in UW real estate coursework to a point that the student automatically integrates political factors into real estate thinking. Successful real estate professionals as well as leading industry associations such as the Counselors of Real Estate continue to focus on politics and its impact to the real estate industry.

In thinking about the current political landscape and what changes might impact our real estate portfolios and/or businesses, we recall that some of the most significant political changes over the years have directly impacted real estate. A few examples include:

1. Federal Home Loan Bank Act of 1932 - The Act established the Federal Home Loan Bank System as a source of liquidity and low-cost financing for S&Ls and was followed by the creation of numerous federal entities and legislation; fast forward to the S&L crisis of the 1980's.
2. ERISA - The Employee Retirement Income Security Act enacted in 1974 led to the eventual expansion of pension fund investment into the real estate asset class.
3. The Tax Reform Act of 1986, which, among many other things, altered real estate depreciation schedules to 15 years and limited deductions for passive activity losses in real estate partnerships.

It is highly likely that future political changes and legislation will continue to influence the real estate industry and will be incorporated into the real estate process as we move forward. Might these factors include:

1. Health Care - The future of health care delivery and resulting space demands?
2. Energy and Natural Resources - A growing adoption of green living and continued draw of population (living and working) back to the urban core?
3. Security - How the advantages and challenges of the global economy influence our space needs?

The Counselors of Real Estate will be convening in Chicago April 22nd-25th and I expect many of these ideas to be debated and discussed. More to come......

A reminder for all CRE's to mark your calendars for the May 31, 2012 Luncheon featuring Hugh Kelly presenting "24 Hour Cities and RE Investment Performance" at the Algonquin Club Boston.

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