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Good news for year-end momentum going into New Year

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The economy is recording more good news for year end momentum rolling into the New Year. With the cliff behind us, most will be energized to jump on the wave. We might even have some good news in the Euro markets by then. Remember that economic data tends to understate the domestic economy in the spring and overstate the domestic economy in the fall. The President and congress have been having serious sit downs in the White House with both parties and all partisanships. Most of those invited are using terms of hope and encouragement if not endearment. Of course these matters are serious and even momentous. Tax reform, entitlement reform and health reform are major economic and social issues by any measure. And, some stimulus spending might serve to sustain that momentum!

Commercial real estate markets are dependent on economic stability and growth and capital availability. By most measures these markets should not be shocked by the outcome of the so-called deficit talks. However, the dampening impact of uncertainty in fiscal reform is certain if not measureable. The economy will certainly bump if the current payroll tax relief of 2% from 6.2% to 4.2% is allowed to expire December 31st. Tax reform impacting rates and deductions will certainly impact investor incentives in all investments. Any change in various tax credit provisions will impact specialized investment programs which are supported by those tax credits.

Tax reform will have a definite impact on the private taxable investor that will impact incentives and liquidity for the sector and market activity from the sector. Because commercial real estate is capital intensive, investors will be impacted by any changes in capital gains rate and tax provisions. The single family market will be impacted by changes in personal deductions, most notably mortgage interest deductions on residences. Both of these changes have been in the news; however the likely scenarios are blurry. Tax credits for affordable housing, historic preservation and rehabilitation, energy improvements and other incentives for commercial real estate development might be included in a major overhaul of the so-called tax loop holes.

Healthcare reform has already started to effect change in service delivery and cost and the real estate that serves the sector. The details of the plan and its implementation will have an ongoing effect on commercial real estate. Entitlement reform will most certainly be implemented in phases which will allow time for planning for change. Tax reform is the scariest one and the one most likely to bruise residential and commercial real estate. Some phasing might mitigate the negative impact of tax provisions which have been already discussed.

Anyway by January 1, we will have a New Year and a new playing field. No more bungee jumping or vertigo off the fiscal cliff. Most feel strongly the markets are prepared for whatever it takes. Happy New Year!

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