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# Predictability & sustainability – It's anyone's guess - by Brett Pelletier

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I heard a political commentator on NPR last week describe the recent healthcare bill situation by saying "before you can do stuff, you need to know stuff" and I thought that was a fitting descriptor of the current state of affairs for policy discussions in the country. We all need reminding how nuanced it is and how diligent we need to be in order to make good policy that actually does what it is intended to do, especially when the impacts are unknown or unknowable. Without first "knowing stuff" it is difficult, if not impossible to progress an agenda, effect change, and ultimately make progress. We're all sitting on the edges of our respective seats as we continue to experience the unknown with a sense of cautious optimism for the cumulative and aggregate impacts and outcomes. Policy is a major driver of public opinion and consumer confidence and without confidence and predictability, the markets can start to fall apart fast and violently.

Reports throughout the Boston commercial real estate markets are generally positive and the outlook for the coming quarters is cautiously optimistic; nothing new there. However, there are red flags appearing on the landscape and more questions than answers in some sectors. Have we overbuilt downtown luxury housing? Is the commercial development in the Seaport outpacing the infrastructure? And how does affordable housing fit into the mix? The FED raised rates in mid-March, as everyone expected them to and most agree that two or three more rate hikes will be made in 2017. The impacts on single-family residential markets, commercial markets, and retail and consumer banking activity have started to slowly show.

It has always been important for market participants to take a holistic view, but now, we also must consider tangential impacts and advocacy through new avenues. As real estate markets become more and more efficient and sophisticated, the influence of local, state, and federal policy and politics are as important as the deal fundamentals. With reports of Low Income Housing Tax Credit (LIHTC) deals all over the country in various states of limbo as yield investors prepare for potential corporate tax reform, allocating agencies uncertain of what the next cycle will bring, and proposed budget cuts to virtually everything, we're venturing into uncertain territory and it is yet unclear what the full impact will be of policy talks and action.

Certainty and predictability breed confidence and stability in the markets. When fear of the unknown takes hold, the markets become unpredictable and risk and volatility increases. From a policy perspective, there is also risk in uncertainty and there is risk in doing nothing, or worse, falling short of expectations. Talk of a reduction in corporate tax rates has sent the tax credit markets into frenzy and has PWC and Novogradac issuing alerts and guidance. LIHTC participants understand the implications of a reduction of the corporate tax rate to 20% means a probable 7.5% (+-) reduction in credit pricing in order for investors to maintain yield. That's a major haircut for a deal structure that is already very complex and vulnerable.

As appraisers, market analysts, and consultants, we must look at the whole pitch, and not just the ball and we must understand the forces that influence the markets and deals. Being engaged is never a luxury. We all have experienced the agglomerative impact of individual participants and the aggregate impact of each transaction that can amount to a colossal economic force with global impact. The lessons learned in the last decade should not be soon forgotten. All participants, from start to finish, need to be diligent, responsible, and thoughtful. As the markets begin to experience the most recent round of volatility and uncertainty, it is essential to understand the problems to be solved and the broadest landscape capable. Especially with deals in markets that depend on some form of tax credit, subsidy, or enhancement from local, state, and federal governments, the policy priorities and (in)decisions can have very real impacts on the feasibility of the deal and the sustainability of the market.

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