nerej CELEBRATING 55 YEARS EST 1963

FED action and tax reform might be considered tailwinds - by David Kirk

November 10, 2017 - Appraisal & Consulting

David Kirk
Kirk & Company

Commercial real estate continues to benefit from moderate economic fundamentals and well -priced risk. Nevertheless, the favorable conditions and outlook are unevenly spread over related capital and property markets. FED action and tax reform are both headlining events and will continue to be. However, both appear to be on track, the FED action much more predictably so. The FED continues the reduction of balance sheet investments, and closely monitoring the economy and planning rate action in 2017. Gains during 3Q in jobs, personal income, productivity, inflation and the economy underpin moderate fundamental strength and outlook in the economy. Many of these indicators favor commercial real estate. Tax reform is a large basket of fruit. So far, reform provisions being discussed have marginal impact on commercial real estate; and further, support for economic growth should benefit commercial real estate as well. However, the scope and scale of tax reform will include provisions with so-called unintended consequences, and reform embraces a wide ranging variety of existing and prospective code provisions. Optimism favors commercial real estate.

The new FED chair is expected to be Jerome H. Powell an existing FED board member who has supported FED chair Janet Yellen. Yellen's term expires in February 2018. Normalization of balance sheet and gradual rate action are both on track. Transparency, communication, diligence and consistency are just a few of the prevailing characterizations of the FED. Powell is expected to provide leadership in reducing regulatory burden in the banking industry. Some action is considered a timely and reasonable review of the recessionary period activities. Powell is expected to preserve continuity and the positive changes implemented at the FED. Most feel even with these changes for the FED, yearend 2017 is much too early to forecast prolonged low interest rate environment which would probably prolong commercial real estate activity.

Tax reform is on the wish list of most. The complexity, obsolescence and unintended consequences of the ponderous code justify an overhaul, an update, a review, a rewrite. Cashing in on this process is a free-for-all. Not really. Three goals with some common appeal are: improved equity for the middle class, reduced corporate rates for improved global competitiveness, and simplification. Two tax credit programs for economic development in commercial real estate have been eliminated in the draft bill; these programs for historic preservation and distressed communities have been particularly effective and popular initiatives in commercial real estate. And then there is budget overlay with spending priorities which add stress to any so-called tax reform package. There is too much fruit to speculate on the final package; however, the dialogue and the noise are more hopeful now than in recent history and political realities are hopeful as well.

Commercial real estate continues to benefit from moderate economic fundamentals and well -priced risk. FED action and tax reform might be considered tailwinds for commercial real estate investing. Soothing and smoothing of the sailing ahead. Headwinds are faintly symptomatic, just beyond.

David Kirk, CRE, MAI., FRICS, is principal and founder of Kirk & Company, Real Estate Counselors of Boston, Mass.