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Tax reform: Optimism favors commercial real estate - by David Kirk

December 08, 2017 - Appraisal & Consulting

David Kirk
Kirk & Company

Commercial real estate continues to benefit from moderate economic fundamentals and well -priced risk. Unlike frequent daily records set in the domestic securities market and rising indexes in global markets, commercial real estate pricing is generally stable. Nevertheless, the favorable conditions and outlook are unevenly spread over related capital and property markets. Tax reform is rightfully the headlining and ongoing event and will continue to be. Gains during 3Q in jobs, personal income, productivity, economic activity are on track to underpin moderate fundamental strength and outlook in the economy. The Fed is closely monitoring the economy and planning rate action at December meeting yearend 2017. Many of these indicators favor commercial real estate.

The new FED chair is expected to be Jerome 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 substantial common appeal are: improved equity for the middle class, reduced corporate rates for improved global competitiveness, and simplification. Currently, several sources are running numbers. Because tax reform is expected to pay for itself, there is budget overlay with spending priorities which add stress to any so-called tax reform package. There is also a pending deficit ceiling which requires resolution… 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.

Tax reform is a large basket of fruit. So far, reform provisions being discussed and currently set forth in both congressional versions of the bill have marginal impact on commercial real estate; however, each version separately does include elements with questionable if not negative impact on commercial real estate. Reconciliation of the two versions from the House and the Senate are already being discussed and speculated, if not negotiated. Reconciliation of the proposed legislation will determine what tax reform package will be submitted to the president. 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.

Merry Christmas. Happy New Year. And best for 2018.

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