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The Counselors of Real Estate release its Annual List of Top Ten Issues Affecting Real Estate

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Chicago, IL In a break with the tradition of list announcements, The Counselors of Real Estate (CRE) professional association presented its annual Top Ten Issues Affecting Real Estate List for 2018-2019 by differentiating between current and long-term impacts on real property. Counselors' clients seek advice on today's issues which will impact property today—and today's issues which will impact their decisions over the next ten years. This year's change in the way the list is presented clarifies that differentiation.

Leading the list of current issues is interest rates and the economy. As interest rates rise, the commercial and residential real estate markets are already experiencing changes -- decreasing demand for commercial property, and higher home mortgage rates. Rate increases also limit value appreciation for commercial real estate and make housing less affordable. Lack of wage growth for all but the wealthiest population segment is dampening housing demand, and limiting consumer spending that the economy needs for growth. The counselors cited a 2017 Brookings Institution study which showed real wages for most of the middle-class have only increased 3.5% since 1979, compared to a 24% rise for the top income segment.

Longer-term, however, infrastructure—and the lack of serious effort by the U.S. to address its condition and much-needed revitalization—leads the list of broader and emerging issues affecting real estate. Roads, bridges, airports, water and sewer lines, electricity, even public transit – all necessary to sustain and expand cities and communities alike—are rapidly deteriorating. U.S. infrastructure was given a D+ rating in the American Society of Civil Engineers 2017 Infrastructure Report Card. As much as \$4.5 trillion is estimated by that organization to improve critical infrastructure by 2025.

The Top Ten Issues Affecting Real Estate announcement was made during the keynote address of the National Association of Real Estate Editors annual conference in Las Vegas by Joseph G. Nahas, Jr., CRE, 2018 chair of The Counselors of Real Estate--the invitation-only professional association for leading real estate advisors. Mr. Nahas is senior vice president, investor relations, Equus Capital Partners, Philadelphia.

The list is developed annually by members of The Counselors' External Affairs group, led by Victor Calanog, Ph.D., CRE, chief economist and senior vice president, Reis, New York, N.Y., and Hugh F. Kelly, Ph.D., CRE, special advisor, Fordham University Real Estate Institute and principal, Hugh F. Kelly Real Estate Economics, New York, N.Y. The 1,100 CRE members around the world undertake

an extensive collaborative dialogue on current issues and trends to identify the final list.

Additional Current Issues on The Counselors' Top Ten List

Politics and Political Uncertainty was second on The Counselors' Current Issues list. Tax reform and policies enacted to change the balance of trade with other countries impacts jobs, incomes and property of all types, commercial and residential. Congressional action to relax certain bank lending and asset management regulations was also among developing trends which may improve access to capital.

Other issues on this year's list include

- The lack of Housing Affordability across nearly every income bracket with the exception of the most wealthy households. Affordability is fueled by not only low wages and rising mortgage rates, but also underproduction of housing for almost two decades.
- Effects of Generational Change and Demographics – for the first time in more than half a century, there are four distinct groups exerting influence on both commercial and residential real estate – such as office design, student and elder housing, amenities, and locational preference. Aging Baby Boomers, a similar number of Millennials, and the smaller groups on either side of Millennials (Generation X, now mostly middle-age and Generation Y, including students and those in their early 20s).
- Retail sector volatility, including the rise of E-commerce, and Logistics that support warehousing and delivery of goods.

Additional Longer-Term Issues Noted by The Counselors of Real Estate

Following closely behind Infrastructure on the 2018-2019 list of Longer-Term Issues is Disruptive Technology. Examples include advanced robotic manufacturing and warehousing; driverless cars and trucks; the extensive availability and utilization of personal and transactional data (which enhances all kinds of business decisions), “smart” building technology that enables efficiency; global connectivity; automated business processes; and information protection through cybersecurity. Nearly every aspect of real estate is undergoing dramatic change as these types of technology are adopted.

Other issues announced were

Natural Disasters and Climate Change, which result in property and environmental damage from events such as severe storms, wildfires, floods, earthquakes, volcanic activity, and rising sea levels.

Immigration which, if reduced by law, will have a negative impact on new housing starts and home purchases as well as worsen the current skilled labor shortage in the U.S.

Energy and Water, natural resources important to property and quality of life, yet threatened by not only environmental damage (man-made and climatological), but entangling state and local regulations which complicate development and lack the standardization national regulations would provide.

Nahas emphasized that the issues are interconnected and reflective of accelerating changes being experienced in all property sectors. While many challenges were identified, he pointed to opportunities as well, embedded within every aspect of The Counselors' Top Ten Issues Affecting Real Estate.

On the Watch List are four additional issues—Construction Costs, Urbanization/Suburbanization, Tax Cuts and Societal Leadership.

Rising construction costs make some development unfeasible, and increases prices on commercial and residential property alike.

Cities continue to attract population and provide opportunities for Millennials, seniors, and other demographic segments as well as property investors, corporations and small businesses. Suburbs are adapting with city-like development and amenities.

Tax cuts positively impact commercial properties, although the effect of this legislation is still developing. This legislation has potential for corporations large and small to create jobs. Individual tax cuts may provide a small increase in disposable income and make home repair or remodeling more attractive; on the other side of the equation is limits on mortgage interest deductibility for homeowners.

A new surge of social activism among younger Americans, celebrities and a large portion of the American public surrounding the #MeToo women's movement, gun control and diversity has potential – if sustained -- to fuel business and social reform on many levels. The real estate industry has an opportunity to take a leadership position to hire, train and promote women and minorities; build responsibly and sustainably; create affordable housing, and enhance protections for properties, tenants and residents.

Current Issues

1. Interest Rates & The Economy
2. Politics & Political Uncertainty
3. Housing Affordability
4. Generational Change/Demographics
5. E-commerce & Logistics

Longer-Term Issues

1. Infrastructure
2. Disruptive Technology
3. Natural Disasters & Climate Change
4. Immigration
5. Energy & Water

About The Counselors of Real Estate

The Counselors of Real Estate is known for thought leadership, extraordinary professional reach (more than 50 real estate specialties are represented by its member experts) and objective identification of the issues and trends most likely to impact real estate now and in the future. The issues in the annual Top Ten Issues Affecting Real Estate list are an unbiased assessment of the most critical factors impacting real property.

The Counselors of Real Estate® is an international consortium of recognized problem solvers who provide reliable, state of the art advice on real property. Membership is extended by invitation and includes principals of real estate, financial, legal, and accounting firms as well as developers, economists, futurists, and leaders of Wall Street and academia. Counselors of Real Estate endowed the MIT Real Estate Center, brought parking garages to China, developed a master plan for the Philadelphia Public Schools and valued Yale University and The Grand Canyon. Award of the CRE® Credential attests to the exceptional real property experience and decision making skills of the recipient. Only 1,100 people in the world hold the CRE credential.

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