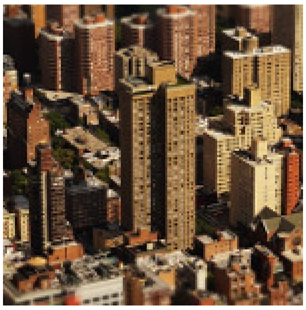
Real Estate Executives Remain Bullish as Tax Reform Measures Take Shape, Akerman Reports



As the U.S. commercial real estate sector prepares in the downswing of an extended economic expansion, executives and investors continue to be highly optimistic about the market and the overall U.S. economy, according to an annual survey by U.S. law firm Akerman LLP. The tenth annual **Akerman U.S. Real Estate Sector Report** – completed by more than 200 C-suite and senior executives – shows that developments such as federal tax reform and evolving technology have taken root and spurred growth, even amid mounting uncertainty and the likelihood of a market correction.

Coming off a record-high outlook in the 2018 survey, when 68 percent of respondents expressed more optimism for the market in comparison to the prior year, 70 percent this year say they are more bullish about 2019 market activity than 2018. Nearly half (46 percent) say the continued improvement of the U.S. economy is the primary driver of this increased confidence.

In a release, the firm said the survey also shows sentiments of softening with a market slowdown looming. A third of respondents (33 percent) say interest rate uncertainty is their primary concern, followed by uncertainty in global economic conditions (23 percent) and uncertainty of federal government policy in the U.S. (22 percent). With the prospect of an interest rate reduction by the Federal Reserve, concerns about rising interest rates are abated for the time being and certain subsectors like industrial and multifamily are outperforming in major markets like Chicago, Houston, Los Angeles, Miami, and New York.

"While the U.S. real estate market has remained resilient since the economic downturn, the headwinds we expected coming into 2019 are starting to come to fruition," said Eric Rapkin, chair of Akerman's national Real Estate Practice Group. "Nonetheless, capital is still chasing deals, especially in gateway markets, and we're beginning to see executives capitalize on tax advantages and deferral strategies such as Opportunity Zones."

Additional trends identified in Akerman's 2019 survey include:

• Tax Reform and Opportunity Zones Generate Activity: With the commercial real estate sector a key beneficiary of the Tax Cuts and Jobs Act passed in December 2017, it's no surprise that 46 percent of respondents rank tax reform among the top three trends they expect to have a significant impact on real estate development over the next three years. On the heels of the release of the U.S. Treasury Department's second round of proposed regulations, developers and investors are expressing more interest in Opportunity Zones – areas designated for federal tax breaks. As further clarity is being brought to the program, nearly a quarter of respondents place Opportunity Zones among the top three areas they believe will fund the most commercial real estate debt and/or equity in 2019.

• Digital Transformation and Disruption: Executives responding to the survey view technological advances as having the most influence on real estate development, with 48 percent selecting it among the top three trends that will have a significant impact over the next three years. Incorporating the latest technology and design attributes has become critical across all sectors of the real estate market, including luring and retaining tenants in office buildings, attracting millennials to residential properties and facilitating the use of automation and robotics for the industrial sector.

• Aging Population Drives New Areas of Growth: The graying of America closely follows technology and tax reform as the trend expected to most impact real estate development, with 45 percent of respondents designating it among their top three choices. As seniors account for more of the population, new types of healthcare facilities are experiencing growth, including microhospitals, ambulatory surgery centers and other medical uses within traditional retail locations.

• Housing Still Dominates: Survey respondents continue to express confidence in multifamily with 67 percent placing it among the top two sectors they expect to be the most active for real estate transactions in 2019, followed by single-family residential (50 percent). These results echo last year's survey where 63 percent of respondents predicted the multifamily sector would be the first or second most active in 2018. Within multifamily, 2019 respondents rank apartment development as likely to be most active this year, followed by senior living facilities.

• China, Canada and Latin America Lead the Way: Uncertainties abound in an unbalanced global economy – driven by such developments as the trade war with China, ongoing Brexit gridlock and the upcoming U.S. presidential election. Nonetheless, respondents expect cross-border investment across a range of areas. Executives predict China to be the region that will invest most heavily in the U.S. hospitality, industrial, office and retail sectors. However, Canada is expected to contribute most to foreign investment in the predicted hot markets of multifamily and single family residential. Within Latin America, respondents expect the greatest increase in investment in U.S. real estate to come from Mexico (38 percent), followed by Brazil (30 percent).

• Private Equity and Banks Lead Among Funding Vehicles: For the fourth year in a row, real estate executives expect most funding to come from private equity funds and institutional lenders. In reflecting on the top three areas they expect to fund the most commercial real estate debt and/or equity in 2019, 53 percent chose private equity and 51 percent selected banks. Additional funding sources selected by respondents include foreign investors (45 percent), insurance companies (28 percent) and real estate investment trusts (24 percent).