

# RED STATE, BLUE STATE, REAL ESTATE


Consultant **CHRIS LEE** shares how the outcome of the 2008 presidential election could impact the real estate industry—and what some insiders are doing to prepare themselves and their businesses.

**NO MATTER WHO WINS** the 2008 presidential election, the challenges ahead for the victor are daunting and could bring a dose of reality to pre-election rhetoric and promises. Leaders within the real estate industry recognize the plethora of problems, crises and tough decisions facing the 44th president, and they're preparing for changes in 2009 and beyond.

For many real estate professionals, who wins is less important than what decisions will be made. Some leaders believe the issues and difficult decisions facing the next president may leave the winner with only one term.

To prepare for the unknown, real estate leaders and professionals at all levels are taking strategic and tactical steps now so that the impact and potential legislation of a Democratic president and Democrat-controlled congress in 2009 and beyond are eliminated or dramatically reduced. Here are 10 areas of growing concern for the real estate industry during this election year.

1. **Taxes:** With a Democratic win, the real estate industry could be impacted significantly if Congress enacts the election-year platform and promises to revise the carried interest deduction and increase the capital gains rate. Many in the industry cashed out in 2007 or are in the process of monetizing some or all of their assets in 2008 rather than take a “hope certificate” chance on a Republican victory. Any tax increases will have a negative impact on gross domestic product (GDP) growth.
2. **Immigration:** It now appears likely that employers, not the federal government, will become an unofficial extension of the U.S. Citizenship and Immigration Services. Many real estate companies who previously did not verify employees’ citizenship—or mandate their service provider to do so—are doing so now. While both Presidential candidates defer on their approach to illegal immigration, there appears to be an agreement that employers are going to have an increasing burden to verify employees’ citizenship. Immigration issues could require more multifamily owners/operators to have bilingual on-site personnel. Watch for a wave of outsourcing services that will be used to verify citizenship.
3. **Unionization:** The declaration by the Democratic presidential candidate and his party that they want more, not less, union membership by employers will continue to result in real estate growth in non-union states (i.e., the Southeast and Southwest). Many real estate investors are already taking steps to diversify their business activities and holdings to the traditionally non-union Sunbelt southwestern states.
4. **Housing:** Real estate leaders are expecting a rise in funding for affordable housing and various community revitalization grant programs, regardless of who is elected. The current focus is on establishing the skill set, capabilities and resource partners necessary to capitalize on the likely dramatic increase in financial aid for urban housing. Service companies are now considering hiring urban-housing and mixed-use specialists to capitalize on this opportunity.
5. **Credit:** Resolution of the credit crises will not occur until 2010 or beyond. Most real estate leaders are very supportive of the chairman of the Federal Reserve System, Ben Bernanke, and expect him to continue until his term expires on January 31, 2010. The current bet is that a Democratic president will appoint his own chairman at that time, while a Republican president will likely renew Bernanke’s term for another four years.
6. **Trade:** The real estate industry, particularly the industrial/warehouse sector, relies on trade to grow. While the Democratic candidate has indicated his preference to reduce trade (i.e., “revisit” NAFTA and GATT), and “support” the American worker (unions), real estate investors believe that, despite the pre-election rhetoric, American consumers will not be willing to purchase goods that are two to three times more expensive than foreign goods. Therefore port and air cargo activity will remain strong.
7. **Green:** Both candidates support green initiatives, and real estate investors are betting that growth in and around colleges, universities and green technology corridors will increase significantly. However, a growing number of real estate owners are concerned that Democratic proposals will dramatically slow re-development activity. Such proposals are purported to include taxing building environmental inefficiencies and non-sustainable construction materials, taxing or adding fees to new development projects and potentially taxing tenants to encourage energy savings and recycling. Should the Democratic candidate win, watch for a wave of anti-corporate, anti-growth initiatives to be proposed. Both candidates support billions of dollars in clean energy investment.
8. **Tort Reform:** Tort reform is very unlikely if a Democrat is elected and even less likely if a Democrat-controlled Congress is seated. Frivolous lawsuits can slow real estate growth. Real estate owners are increasingly using third parties to avoid the threat of lawsuits. Watch for a wave of new legal hires within real estate companies to protect owners/operators.
9. **Labor:** Real estate companies are betting on changes to the employment law, regardless of election results. Human resource directors are preparing for a tsunami of new legislation and regulations. Issues will include benefits for same-sex partners, for-cause terminations, CEO compensation, and privacy matters such as ownership of e-mail and Internet governance. Re-writing employee handbooks will be fairly commonplace.
10. **Health Care:** This is the one area in which all real estate professionals and both candidates agree: more money will be available for, and going to, an increased focus on health care, wellness, dietary needs, research and manufacturing of medical devices. Thus, real estate investors are increasing their activity levels in and around areas with a concentration of the pharmaceutical industry, hospitals and health care facilities.

These are exciting but challenging times. One thing is certain: no matter who wins, what was said to gain that victory will not be the ultimate outcome of the election. 

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*Christopher Lee is president and CEO of Los Angeles-based CEL & Associates, Inc.—one of the nation’s premier real estate consulting firms. Readers are encouraged to visit CEL & Associates, Inc.’s web site ([celassociates.com](http://celassociates.com)).*

