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Realtors advised to stay in the middle in uncertain year

By Susan Danseyar

Despite being an economist, Hugh F. Kelly wryly says he's also "kind of an optimist" and, although 2017's outlook will be uncertain to start, we should proceed like chess players and keep our pieces in the middle where the game is won.

Speaking last week during his 20th economic outlook presentation to CREW-Miami, the local branch of a national organization focused on advancing men and women in commercial real estate, Mr. Kelly said it's always important to think strategically "but now more than ever." Last year, the nationally known real estate economist, teacher and author said in his annual address that every good team needs a strong offense and defense. For 2017, however, Mr. Kelly advises thinking ahead to devise a strategy right now as "we are in a new era."

He wasn't talking about the usual, expected trends or cycles but said we're possibly looking ahead to many changes for the state of the national economy which will, in large part, depend on President-elect Donald Trump's actions in the White House, which won't come to fruition for months.

"We really don't know what the economy will be like in two, three years based on policies still being crafted," Mr. Kelly said. As we read often happens in fiction or even history, people should not plan for what they think the enemy is going to do, he advised. "Plan for what the enemy can do."

Thus, Mr. Kelly said, one should always be honest in self-assessment as we can only succeed with strength and continual learning.

Risk lies in the future, Mr. Kelly said, as we only have data about the past. Point of fact: Look at the polls in the weeks leading up to Election Day and what actually happened Nov. 8.

"People expect a change in the administration means sudden and dramatic change, but the economy doesn't work that way most of the time," Mr. Kelly said. "Trump can't change that much."

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So far, he said, what we do know is that in the short term the stock market has responded well to the president-elect's talk of tax cuts and deregulation; we've heard from the bond market that interest rates are going to rise, which were poised to do so anyway as they've been low for a long time; and the GDP continues to turn upward, as it has every quarter since 2010, he said.

It would appear there will be a change in the international approach, Mr. Kelly said, with a more "in your face" American role. The question, he said, is whether we'll be the side that builds walls or bridges.

Mr. Trump will be spending on military, Mr. Kelly said, which means we'll be building more planes. "There are many industrial markets around the country where materials flow in and are labor intensive which are going to be strong."

South Florida, he stressed, looks very good for this scenario, along with the West Coast, although the central part of the country he predicted will not fare as well.

Additionally, Mr. Kelly said there's been a lot of talk about trade but he does not think it should be reduced to a sound bite. "America has benefitted from globalization. End of sentence."

It remains to be seen – possibly in six to nine months – whether we will have a stricter trade regime or an extension of what is in place now, he said.

For years, Mr. Kelly said he's been hearing "the office" is a dying breed. Yet this country has 500 million more square feet of office space occupied today than in the 1990s. "In the last 15 years, we've created enough commercial real estate to fill the island of Manhattan," he said. "I don't see those numbers as a sign of the death throes."

Miami is doing well in this market as well, Mr. Kelly reported, in the top tier with Boston, New York, San Francisco and Seattle.

Yet things change quickly, he said, and cities have to think about their economic base.

"The effects of the global financial crisis are not over," Mr. Kelly warned. "The housing market still has scars."

The percentage of families that are home owners has dropped from 69% to 63.5%, he said, and he added it's likely the 63.5% will go down, with more students coming out of school burdened with debt and stagnant wage growth in many parts of the country.

That, in turn, plays into the retail market, Mr. Kelly said. "If you don't have the money to buy a house, you don't have a lot of extra to spend on retail," he said.

And, to be expected, we are below normal in housing construction and Mr. Kelly said we will only get back to normal slowly. "A lot has to do with labor shortage and the price of labor," he said. "The price of labor gets built into the cost and interest rates rising will also squeeze this a bit."

Thus, Mr. Kelly said, prices rise as uncertainty rises and will until the future is clearer,

But there's much to be hopeful about, he said, and who better to provide it than those in commercial real estate?

Based on the data, Mr. Kelly said if you have to put your money to work in 2017, the multifamily market – particularly in Miami – will be strong. The population of the US will be an estimated 400 million by the middle of the century, Mr. Kelly said, and needs to be housed. "For the building industry, that will be wonderful, particularly with the shift in demand for ownership."

He advises concentrating where the bulk of the demand exists – for the middle. However, Mr. Kelly warns, you can't just shift from where you are now – and to just shift from where you are now.

Rather, Mr. Kelly advises asking: What are the steps to get there? How do we speak to that market?

It's the profit of the user that pays the rent, he said, and the greater the profit of the user, the greater the commercial base.

Moreover, it's the right thing to do.

"Real estate has a tremendous contribution not just to the economy but to social structure," Mr. Kelly said. "It's an economic issue but a human one as well."