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## NMHC: Trump Ushers in Optimism and Caution

Demographics is destiny, said Mitt Romney, and though the former Republican presidential candidate was talking about the U.S. economy, that sentiment forms the basis for the optimism surrounding the multifamily industry headed into 2017.

Romney's fellow panelists at last week's National Multifamily Housing Conference annual meeting in San Diego referenced the healthy demographic position in which the industry finds itself. Favorable fundamentals include the growing number of Millennials in the prime 20-34-year-old renter group, the increasing number of Baby Boomers with an escalating propensity to rent, urbanization and flattening of homeownership trends.

Given these promising demand trends that are expected to continue for at least a few more years in conjunction with the expected leveling of supply after 2017, the multifamily occupancy rate should continue at high levels in most metros. The overall performance of the industry, therefore, will rest on the strength of the capital markets and global economy.

In those areas, too, the trends look favorable. Property values have skyrocketed since the last downturn, as equity capital from around the world flows into the sector and interest rates remain low. With some exceptions, such as properties in tertiary markets, debt capital is also readily available, as lenders view apartments as a relatively safe asset class. Unlike other commercial property types, multifamily has a unique source of debt capital: the government-sponsored enterprises (GSEs), which have been lending at record levels.

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–Hessam Nadji, Marcus & Millichap

However, the GSEs must be reformed, especially since by law their profits are being diverted into the U.S. Treasury and they will have no capital left in 2018.

The real estate industry is largely in tune with most of the Trump administration’s economic priorities, such as regulatory relief for banks, lower taxes and tax reform. There is also the view that Trump won’t do anything to harm the industry in which he made his fortune. “(Trump) believes a strong real estate economy is a strong U.S. economy,” said Ella Shaw Neyland, president of Steadfast Cos., a real estate management firm based in Irvine, Calif.

However, there are concerns, even about the prospect for strong growth, which could bring about inflation and higher interest rates. “Our business is great at 2 to 3 percent GDP. Our business is not great at 4 to 5 percent GDP, because people do stupid things,” said Willy Walker, chairman & CEO of advisory firm Walker & Dunlop.

Panelists at NMHC expressed an underlying uneasiness about the impact of the president’s impulsiveness. Former Secretary of State Condoleezza Rice, for example, joked that Trump’s Twitter account be converted into a placebo. Romney suggested that Trump will have to change his style in order to maintain the political capital necessary to implement his policy priorities.

What’s more, there are a number of policy issues that will have a major impact on the industry. While details about legislation are still unclear, there are rumors that tax reform proposals will address important issues, including carried interest, depreciation and like-kind exchanges. GSE reform could also have a substantial impact on the availability of debt for multifamily properties. Treasury Secretary nominee Steve Mnuchin, a former Goldman Sachs partner and hedge fund manager, was quoted in an interview last month saying

he wanted to return Fannie Mae and Freddie Mac to private status, which fueled speculation about the administration’s intent. Some Congressional Republicans are proposing the elimination of the federal government’s guarantee of housing loans.

Walker tried to douse fears of imminent change to the GSE mandate. He said he recently spoke to Mnuchin, and the nominee “understands the need for Fannie and Freddie” and “understands the need for the government guarantee.” Walker also said GSE reform was far down on the list of Trump’s priorities, and there will most likely be continued inaction on a reform plan for another year or two. “The agencies are not going anywhere,” he said.

Another major concern centers around foreign policy, as Trump’s strident immigration policies and overtures toward Russian President Vladimir Putin run counter to the ideology the Republican party has held during the past few decades.

Noting that “most of us in the room think free trade is important,” Rice said, “I hope we don’t close our markets or close immigration and go back to a place where we are protectionist, fearful of others.” Yet “Trump voters believe it cost them their jobs and future,” she said, expressing concern about where his populist constituents will turn if Trump does not deliver on his promises.

Trump’s overtures to Putin were of concern for both Romney and Rice, who called the Russian leader a “megalomaniac.” Rice had several conversations with Putin, and recounted, “He would say, ‘Condi, you know us. Russia is always great when it is ruled by great men.’ ... He thinks he is reuniting the Russian people in greatness.”

Asked about election hacking by the Russian government, Rice said that Putin likes to “mess with us,” but added that the U.S.

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—Ella Shaw Neyland, *Steadfast Cos.*

should be cautious about responding. “We should say, ‘We’ll find out and make you pay at the time of our choosing.’ We don’t want a cyber MAD,” she said, referring to the Cold War strategy of avoiding nuclear war called Mutually Assured Destruction.

Romney’s list of challenges facing the U.S. included poverty and stagnating wages, declines in manufacturing employment, climate change and the emergence of more activity from China and Russia on the international scene. America’s strengths, he said, include demographics, energy and technology. A large segment of the U.S. population is in their productive work years, unlike much of the developed world, where population is dominated by older citizens. He also noted that the U.S. has cheap natural gas, which is a big advantage over the parts of the world that don’t.

Ultimately, commercial real estate players have a lot of reasons to be optimistic, but with so many unknowns about expected changes in policy, some might pause until they can ascertain the lay of the land.

“We’re definitely seeing a high degree of ‘wait and see,’” said Hessem Nadji, president & CEO of brokerage at Marcus & Millichap. Nadji noted that up until election night, few expected a Trump victory and many were expecting more of the same policies of the last eight years. “Change brings opportunity, as does the growth orientation of the new administration,” he said. “All of a sudden, there are all sorts of impacts that weren’t there before.”

—Paul Fiorilla, *Associate Director of Research*

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