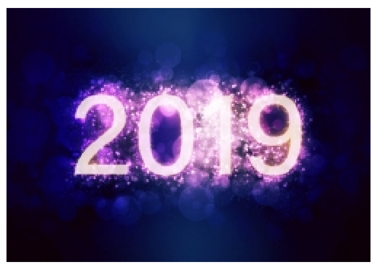
Gruen: Economic and real estate outlook for 2019

tags: economy, real estate
Melanie Hwang on Tuesday, December 18, 2018 at 12:00:00 am

Aaron Gruen of Gruen Gruen + Associates kindly shares his annual predictions with fellow IEDC members.



Healthy real estate fundamentals

- Very low unemployment rate with growth in labor earnings continues.
- High consumer confidence levels persist.
- Long-running economic expansion sustains, especially in Sun Belt regions where lower costs and high quality of life attract influxes of people and companies from higher-cost locations.
- Real estate demand-supply conditions remain supportive in many geographic markets for contemporary office, retail, industrial, hotel, and apartment uses.

Warning signals

The following factors create an uncertain environment and risk of contagion:

- Rising private and public debt service burdens (federal debt and corporate debt, relative to GDP, is the highest since the end of World War II; and student loan debt has increased to $1.5 trillion with a delinquency rate of 11%, to become the second largest source of consumer debt after mortgage debt);
- Lowest investment grade corporate bond category at $1.4 trillion comprises the largest share of the public bond market;
- The leveraged loan market is at its highest levels at over $1 trillion;
- Increasing government deficits;
- Escalating trade tensions;
- Ballooning debt in emerging markets;
- Political instability in portions of the Eurozone, Middle East, and South America; and
- Continued domestic political discord.

2019 is a year to be cautious, flexible, tactical, and focus resources on best ideas:

Industrial: Efficient omni-channel retail sales require more frequent shipments to stores and rapid direct to consumer fulfillment. High throughput distribution facilities, particularly in larger, densely populated markets, represent investment/development opportunities despite higher occupancy costs. Real estate costs tend to rank low compared to transportation, inventory carry, labor, and other logistics costs.

Retail: Enhance ROI and residual values to mall real estate by adding a mix of uses and activities, including entertainment and education, health, fitness, and where market support exists, or can be cultivated, hotel, office, and residential uses.

Apartment: Housing affordability constraints, tax law changes that diminish the tax benefits of home ownership, favorable demographics, and virtually full employment will support continued apartment development and investment.

Single-Family Housing: Housing located in walkable, transit-friendly developments near amenities and services in 18-hour cities, and housing that addresses the affordability crisis in regulatory constrained coastal markets, will continue to sell well.

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