

# GRUEN GRUEN + ASSOCIATES

## Holiday Greeting and 2017 Forecast

### OUTLOOK

Economic expansion and growth will continue for an eighth year in 2017. Given the global economic uncertainty and domestic political turmoil, however, heed the lesson of Joseph's advice to the Pharaoh of Egypt to set aside food from seven years of abundance for the impending seven lean years (Genesis 41). Prepare for increased volatility and a wide range of economic and capital market scenarios.

Elevated risks will emerge for a larger federal budget deficit, increase in the federal debt, and accompanying higher rates of inflation, and increased long term interest rates.

Despite the domestic political discord and anomie, foreign investment in U.S. real estate assets will continue to increase, helping to maintain asset prices. Foreign investment is particularly likely if the EB-5 Immigrant Investor Program is extended without major changes in popular investment (eligibility) criteria.

Growth in demand for housing will outpace the supply additions of over one million units given:

- ◆ Mortgage rates will rise but still remain at historically low rates;
- ◆ Continued low unemployment and wage hikes; and
- ◆ The emergence of older millennials as home buyers.

The end of super low-priced money for construction, the potential curtailment of EB-5 money for major metropolitan projects, continued NIMBYISM, and high levels of household formation and employment will continue to support favorable demand-supply balances and rent growth in strong metropolitan markets.

### REAL ESTATE OPPORTUNITIES

Opportunities for real estate investors and developers to mitigate risk in an environment of heightened uncertainty and high asset prices (with rising interest rates and inflation pressures to influence upward shifts in property value capitalization rates) include:

- ✓ Smaller-sized, infill mixed-use and housing development, especially in those communities which (through zoning and other proactive regulatory changes) encourage pedestrian-oriented, relatively dense mixed-use development;
- ✓ Obsolete urban industrial properties and underutilized suburban retail centers no longer responsive to contemporary preferences into "last mile" distribution centers for e-commerce uses;
- ✓ Incorporating plentiful eating and drinking offerings in retail, office, and hotel environments that help make unique experiences out of shopping, working, or visiting; and
- ✓ Investing in cities not located in coastal gateway and major metro markets in which institutional and foreign investors have bid up asset prices. Secondary markets with strong educational institutions and healthcare sectors, competitively priced housing, job opportunities and attractive qualities-of-life will provide attractive risk-adjusted returns for long-term investors.

**Gruen Gruen + Associates wish you and yours a healthy, happy, peaceful, and prosperous New Year.**