

The state of the (property) union

America is a nation of builders. We built the empire state building in just one year – isn't it a disgrace that it can now take ten years just to get a permit approved for a simple road? (President Trump – State of the Union Speech, 30 January 2018).

Introduction

I know that when it comes to speaking about President Trump, it is very difficult to disengage from the partisan rhetoric. And on many levels, I fully understand the sometime vitriolic distrust of the man; but in this editorial, I want to move away from the political fervour and actually look at what his presidency means to the USA and world property markets.

So I am writing this note the day after the 2018 State of the Union speech. As a Brit, it may seem odd that I would choose to spend a few hours listening to his speech live but, more than ever in this new world of uncertainty, what happens in America impacts upon other nations around the globe. And that impact affects our property markets.

America around the world

As we rebuild America's strength and confidence at home, we are also restoring our strength and standing abroad (President Trump – State of the Union Speech, 30 January 2018).

There is always a risk of "fake news" in the statistics produced but clearly the US stock market is a proxy barometer of the robustness of the USA. As I write, the Dow Jones Index has risen nearly 8,000 points since Trump's election. As with any such unrelenting rise, there will be a readjustment soon particularly if interest rates rise (part of the boom is riding the wave of cheap money) but overall the US markets have welcomed Trump's stewardship. This has been reflected in similar, albeit not as record breaking rises, around the world. And, again as a generalisation, property markets do well when their stock markets are strong.

America's infrastructure

Together, we can reclaim our building heritage. We will build gleaming new roads, bridges, highways, railways, and waterways across our land (President Trump – State of the Union Speech, 30 January 2018).

I doubt that it will have escaped your attention that Trump is branded as a monetarist in the mould of Regan. A president that believes that the economy is guided, if not controlled, by the government's restriction or expansion of the money supply. Yet, if you look at Trump's pillars of the economy, he and his advisors have relied heavily upon the Keynesian tenet of government intervention to stabilise and stimulate the economy. The Trump edict for rebuilding America by investing in new infrastructure projects (including the wall) has stimulated GDP with rises of 3 per cent per quarter for the end of 2017 with corresponding low unemployment rates. And whilst there is a misconception that Friedman and Keynes had diametrically opposing ideas, it does flummox many commentators that Trump should be pumping money into the US economy at the same time as extolling the virtues of the corporate economy. But, whatever the reality, in the short and medium term, this is good news for the construction and real estate industries.



America's defence

I am asking the Congress to end the dangerous defence sequester and fully fund our great military (President Trump – State of the Union Speech, 30 January 2018).

It may seem odd to include a comment on defence as a stimulus for real estate activity but an expanding military needs expanding space. And now that we live in a world where the military is resourced by the private sector, the impact of increased military spending can have a significant impact on those suppliers and their real estate needs.

America's regulation

[...] we have eliminated more regulations in our first year than any administration in history (President Trump – State of the Union Speech, 30 January 2018).

Although the relationship is not linear, there is always a link between the degree of regulation and economic activity. The more de-regulated an economy, the more it is likely to experience greater economic growth. This was the mantra of Reagan in the 1980s and Trump is repeating the deregulation again now with the encouragement of many of the US' real estate developers. Indeed, the National Association of Home Builders (NAHB) gushed:

We commend him (President Trump) for working tirelessly to reduce unnecessary regulations that hurt small business owners and impede a more robust housing recovery. NAHB looks forward to working with the White House to continue to promote policies that will spur job and economic growth and promote homeownership and rental housing opportunities for all Americans.

America's taxes

[...] we enacted the biggest tax cuts and reforms in American history (President Trump – State of the Union Speech, 30 January 2018).

Another stimulus to the economy is a lower tax regime. Again without going into the politics and the equity of such an economy, the impact on real estate is positive. More disposal income will increase activity in the residential markets and, likewise, SMEs will be more inclined to invest in new projects (and real estate) with less corporation tax.

And the above is just the headlines. It may also be that it is crest of a wave and the benefits will be short term and non-sustainable particularly as much of the change is fuelled by increased borrowing. But, as with all things "Trump", the picture is not black and white. The State of the Union has many more shades of grey than can be imagined. Indeed, I could have written the same editorial commenting on the same policies but from a counter viewpoint. But the end result, in the short term, is that real estate markets around the world are stronger than before Trump came to power.

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