

A TALE OF TWO OUTCOMES: THE U.S. ELECTION AND IMPLICATIONS FOR GLOBAL REAL ESTATE

02 November 2020



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Part One of a Two-Part Assessment

As what is known as the U.S. election “season” closes on November 3, the implications of these results on commercial real estate, regardless of the outcome, may differ widely depending on the region and area of focus.

To provide a thoughtful and global perspective on what is the most closely watched contest in generations, Colliers’ global research leadership has extensively reviewed the key economic, market and real estate implications of the U.S. elections on the U.S. itself as well as the Asia Pacific (APAC) and Europe/Middle East/Africa (EMEA) regions.

President Donald Trump and presidential candidate Joseph Biden maintain distance on a number of issues, although common themes of focus emerge. International trade and climate change are consistent threads among all three regions.

In this first edition of our two-part series, published during the election’s final hours as both candidates and their parties are making final strides for the top position, we take a high-level look at the projected impact of each candidate’s publicly stated policy positions/proposals. In the second edition, to be distributed following the certification of the results, we will further explore the ultimate winner’s policy approaches and the associated economic, business, market and real estate impacts.

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United States

International trade

- › Business Impact/Real Estate Implications: While further deglobalization would spur U.S. production, it will be at the cost of lower revenue to U.S. manufacturers. With greater emphasis on local production, demand for industrial space will increase; however, escalated trade tensions could have a negative impact on industrial space in port markets.

Taxation

- › Business Impact/Real Estate Implications: A rise in corporate tax rates could restrict business investment and productivity growth. Biden’s desire to increase taxes on foreign earnings and eliminate 1031 exchanges for real estate investors making over \$400,000 in annual income could impact capital markets.

Immigration

- › Business Impact/Real Estate Implications: Reduced immigration under Trump could apply upward pressure on labor costs and inhibit job growth. The retail and industrial sectors would be disproportionately affected by these reductions.

Climate change

- › Business Impact/Real Estate Implications: Under Biden, governmental regulations would be tightened. New developments would seek to incorporate these new environmental standards, thereby increasing construction costs. Meanwhile, owners of existing buildings could experience substantial retrofitting costs.

COVID-19/Healthcare

- › Business Impact/Real Estate Implications: Rising healthcare costs will impact wage decisions in the form of lower wages, increased premiums, or higher out-of-pocket costs. The pandemic has drawn public attention to the life sciences sector, which is expected to flourish regardless of the election outcome.

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Asia Pacific

International trade

- › Business Impact: Trade tensions between the U.S. and China will persist regardless of the election result, although the length of time and intensity may differ. Under Trump, the U.S.-China trade war would probably escalate again. Under Biden, tensions could ease over time, since he would consider lifting tariffs in exchange for cooperation on climate change – a policy agenda that China shares.
- › Market Implications: An escalation of the U.S.-China trade war would hit foreign business confidence in China and Hong Kong S.A.R.¹. However, the tangible impact on China's economic growth would probably be limited (given the country's strong economic rebound from the COVID-19 recession), and a renewal of the trade war would have less impact on other APAC markets. A Biden victory might improve business confidence in markets across the region, including China, in the long run.

¹ Special Administrative Region [of the People's Republic of China]

Multinational Corporations' (MNCs) presence in greater China and other APAC markets

- › Business Impact: Under Trump, a likely renewal of the trade war may encourage more MNCs to curtail expansion in China and Hong Kong S.A.R. and partially shift to other locations. Under Biden, we would expect more MNCs to maintain or expand their operations in greater China.
- › Real Estate Implications: Further adoption of “reshoring” or “China + 1” strategies by MNCs after a Trump victory would boost demand for office space and industrial property in countries such as Japan, India, Vietnam, and Taiwan. If Biden wins, demand not only from local enterprises but also foreign MNCs should continue to drive take-up of office and industrial space in China, especially around the Tier 1 cities. Prospects for Hong Kong S.A.R. would also improve.

Property investment, currency movements and capital flows

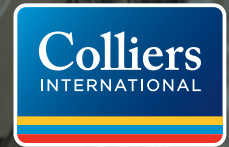
- › Business Impact on Currency: A Trump victory is more likely to boost the U.S. dollar, supporting the buying power of U.S.-domiciled investors in APAC and other regions. Conversely, likely fiscal stimulus under Biden ought to depress the U.S. dollar over

time, while adding to upward pressures on the Chinese renminbi. This would reduce the competitiveness of U.S.-dollar-domiciled investors and funds, potentially restricting their activity to higher-yielding assets.

- › Business Impact on Climate Change: A Trump victory would also be likely to delay global progress towards tackling climate change. Conversely, progress on climate change would be a common policy agenda between China under President Xi and the U.S. under Biden, since both have proposed ambitious carbon neutrality targets.
- › Real Estate Investment Implications of Likely Currency Movements: While U.S.-domiciled investors would have more buying power under Trump due to a stronger dollar, political relations between China and the U.S. would probably be more tense. At the margin, this might help concentrate investment by U.S.-based investors in APAC markets with close political relations with the U.S. (e.g. Japan and Australia). While U.S.-domiciled investors would have less buying power under Biden due to a weaker dollar, political relations between China and the U.S. would probably be less tense. This might boost foreign investment in China over time.
- › Chinese capital actively targeted other APAC markets over 2017 and early 2018 during a period of renminbi appreciation. If a Biden victory does add to upward pressure on the renminbi, Chinese capital will potentially start targeting other APAC property markets again, notably Hong Kong S.A.R., but also traditional destinations like Australia.
- › Real Estate Investment Implications of Climate Change Issues: We expect the importance of energy efficiency and sustainability to rise in all aspects of property occupation and investment. If a Biden victory accelerates global progress on climate change, the incentive for developers to adopt high “green” standards and certifications will increase. This may result in near-term retrofitting costs for owners of existing buildings. However, investors are likely to assign a premium to buildings with such standards. While data centers are a very popular asset class in APAC due to surging data usage, from a sustainability perspective reducing their power consumption represents a long-run challenge.

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EMEA

NATO/Security Measures

- › Business Impact: Further disruption of the NATO alliance brought about by a second term in office for President Trump adds a substantial risk and cost to European governments. This is likely to place an additional drag on economic growth, and further sanctions on Iran would be unwelcome, particularly for U.K. business. Reparation of NATO and alliance relationships under a Biden presidency should take this level of uncertainty off the agenda, but Europe will need to absorb the cost of its own security mid-term.

International Trade

- › Business Impact: A second term for Trump is likely to create further tariff uncertainty, impacting business confidence and lowering revenues for export-focused companies. Under Biden, tariffs should diminish as alliances are reformed, but a U.S. fiscal stimulus package paves the way for tax hikes/spending cuts, curtailing U.S. demand for European exports down the line. For the U.K., any future relationship with the U.S. will also hinge on the Brexit trade deal, which will be back in focus once the U.S. election is decided.
- › Real Estate Implications: Irrespective of who is in office, lower European export/import demand could follow the U.S. election result, impacting demand for industrial real estate. Brexit trade disruption has led occupier activity to move closer to customers and counteract tariffs/administration. Further occupier co-location strategies could follow. A weaker dollar under Biden could further reduce the competitiveness of U.S. dollar-domiciled investors and funds, restricting their activity to higher-yielding assets. A stronger dollar under Trump could maintain U.S. dollar buying power.

Climate Change

- › Business Impact: If Trump is victorious, there will be further delay in the shift towards an agreed-upon global climate change agenda. The U.S. hydrocarbon industry would get at least a short-term boost along with, most probably, the Middle East, Russia and Africa. The Biden administration has set out a zero-net emissions target date of 2050, consistent with those of both the U.K. and EU. Alongside China's surprise announcement in September to decarbonize by 2060, a Biden victory would move the dial in favor of stronger global climate action. This would accelerate the growth of the renewable energy sector, a key component of foreign direct investment (FDI) activity in EMEA.
- › Real Estate Implications: We anticipate an acceleration of the importance of energy efficiency and fuel sources in all aspects of real estate investment, management and occupation. Legislation is already coming into play that will influence leasing/occupation if focused on assets that meet high energy efficiency standards. Given their high dependence on power, data center assets are likely to come under greater scrutiny with respect to their long-term sustainability and environmental, social and governance (ESG) credentials. While climate change policy adoption will occur in the U.K. and Europe regardless of a Trump or Biden victory, a Biden victory will accelerate this change and support the adoption of more consistent ESG strategies across North America and Europe, if not globally. This should enable global investment managers to increase the weighting of sustainable real estate assets in their portfolio, which is of increasing relevance to corporate occupiers and equity stakeholders.

Sources: Moody's Analytics, Capital Economics, Oxford Economics, joebiden.com, donaldjtrump.com, TheEconomist.com, TRIP, FinancialTimes.

