



3 Economic Factors Impacting the World of CRE Right Now

As we're looking towards the end of Q1, it's the perfect opportunity to strategize for success, longevity, and prosperity. It's time to gain an insider's perspective on the most pressing current trends that are impacting the scope of commercial real estate today.

Today's CRE climate is being shaped by widespread economic shifts, instigating the emergence of a new culture for commercial real estate. Here are 3 major factors to look out for that are shaking up CRE the rest of the year.

All Eyes on the Economy

2019 marks the 10th year of the nation's steadfast economic expansion, and everyone's on their toes looking out for signs of a possible downturn. This past decade has seen the longest solid span of economic expansion since the 1990s tech boom's ten-years of uninterrupted growth.

Jim Glissman, Head Economist from JPMorgan Chase Commercial Bank, provides context for this atmosphere of apprehension — noting that throughout the U.S. business cycle history there is a prevalent pattern where economic recessions occur within two years of reaching full employment. Glissman explains, "this pattern has been the result of two imbalances — a building inflation problem that requires the Fed to adopt a restrictive policy posture, or unprecedented financial imbalances."

However, neither of these issues are plaguing the economy right now. Rather than a full-blown recession, experts are predicting an economic slow-down in 2019 due to federal tax cuts and frequently-bumped interest rates.

High Demand in Opportunity Zones

With the IRS and Department of Treasury's working on finalizing the Opportunity Zones Program, investors are rampantly hunting for the chance to profit off of these areas promising massive upside potentials. The potential is so strong that \$6 trillion dollars of unrealized gains have already been substantiated by eager investors.

The Opportunity Zones Project was implemented with the hopes of supplementing economic prosperity in underdeveloped communities around the country. Incentivized with sizable tax cuts, there has been a massive initiative to invest in these areas even before the program's official launch.

Surges of demand in officially specified zones are continually expected throughout 2019.

Afflicted Construction Industry Pushes for Adaptive Reuse

Skyrocketing costs for labor and construction are continuing to plight the CRE world this year, instigating new challenges to building and production. An unrelenting increase in building costs coupled with a widespread labor shortage is causing difficulties for the construction industry at large, rolling over problems from last year.

During 2018, the overall construction cost index has risen 3%, and labor costs are up by 2.9%. Building material costs are also on the rise, and the tariffs placed on aluminum and steel are expected to exacerbate the issue. Overall, global trade rates on popular components such as asphalt paving are up by 4.4%, lumber by 9.8%, and concrete block 4.5%.

In light of this, adaptive reuse of existing building structures is the newest frontier for CRE. Studies show that repurposed or renovated spaces can be 16% less expensive and 18% quicker than new construction projects, and 90% of developments in the next decade are expected to be adaptive reuse.

For more information about how the current economic climate is affecting commercial real estate, [contact us](#).