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Briefing

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# The 'Red Sweep' and real estate: Has the outlook changed?

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The impacts of US presidential elections on financial markets and especially real estate are often overstated, as we have pointed out previously (see our ISA Briefing, "Elections everywhere, all at once"). An excessive focus on the news cycle can distract from important ongoing trends that are not 'new news', such as a broad global trend toward cooling inflation. Headlines also tend to accentuate differences, rather than commonalities, between outcomes. For example, regardless of the election result, trends favored greater nearshoring, and both US political parties are hawkish on China.

That said, last week's initial reaction to the election result by the media and markets was significant. Looking beyond near-term noise and volatility, we offer our perspective on what it might mean for real estate over medium- and long-term timescales. This is based on our own analysis, the views of third-party providers,[1] and discussions across our research, investment and leadership teams. We recommend investors keep in mind four observations when considering the election result:

1 **Legislative obstacles exist to enacting full campaign-trail rhetoric.** The almost certain 'red sweep' outcome (Republican control of the White House, Senate and House of Representatives) should make it easier to pass legislation than under the anticipated divided government scenario.[2] The Republican victory has been labelled a 'mandate' by the media, but legislatively, it is not a blank check. The Republican majority in the House will be razor-thin and that means that legislation must be agreed by the full spectrum of Republican legislators, which is not uniformly aligned with campaign promises. This will likely exert a moderating force on what the next Trump administration can do, especially around policies that increase the budget deficit. Republicans will also lack a filibuster-proof majority in the Senate and face likely unified resistance from Democrats in that chamber, limiting probable action on many types of legislation.[3]

[1] These include Oxford Economics, Capital Economics, Piper Sandler, Signum Global Advisors and Green Street Advisors, among others.

[2] Going into election day, major models such as those maintained by the New York Times and Nate Silver pegged the presidential candidates' chances as a 'coin toss' (50%/50%), but with a high degree of probability of a divided control of government (up to 80%). Divided government is typically characterized by policy stability due to difficulties passing new legislation, limiting the degree of likely policy change. It would have likely reduced the expected delta between a Trump and Harris presidency.

[3] US senate rules allow for only certain types of legislation, notably certain types of budget bills under the "reconciliation" process, to be passed without a 60-seat supermajority.

2 **A shift toward a higher path of growth, inflation and interest rates is possible, but mostly on the margins.** Beyond the moderating impacts of the political process, one reason the delta may not be large is that there are likely offsetting impacts. Commentary has focused on Trump policies that potentially boost the prospects for economic growth, including reduced regulation by federal agencies and tax cuts (e.g., fully extending the expiring TCJA[4] and cutting corporate tax rates). But they may exist alongside policies that could be negatives for growth, such as a reduction of net migration to close to zero, which would stifle household formation. Similarly, there are potential Trump policies that may boost inflation, as well as those that could reduce it. Tariffs, fiscal loosening and reduced availability of low-wage immigrant labor would likely be inflationary. But greater domestic US fossil fuel production may be a counterbalancing deflationary force.

Where does all this leave the path of interest rates, which for the first time in two years have been on a clear easing path? The markets' reaction to the election is instructive. When the scale of Trump's victory became clear, the 10-year Treasury yield spiked, but it later eased and ended the week lower than it started. Corporate bond yields, our preferred building block for real estate pricing, felt some upward pressure, but also benefitted from narrowing risk spreads.

Meanwhile, the US Federal Reserve and the Bank of England stayed on course, going ahead with policy rate cuts as expected. This suggests there is no likely near-term change of course by monetary policymakers, and the overall bias towards gradually easing interest rates likely remains intact. However, depending on the net impact to growth and inflation, the decline in rates may be a little less steep and they may settle at a slightly higher level than previously expected. However, the change is not enough to prompt a wholesale change in the outlook.

3 **Real estate sectors are likely to see a complex, sometimes offsetting, mix of impacts.** For example, the multi-family sector in the US may face a weaker demand outlook if household formation is lower due to sharply reduced immigration. However, it may also experience less new supply if the construction labor force is constrained. There is similar variation in potential impacts for logistics markets. Trade barriers may lead to more regionalized production, which at the margin could lead to established and emerging manufacturing nodes seeing more demand. Meanwhile, import/export-related locations, such as submarkets near ports and airports, may see less demand. There are also potential, if uncertain, impacts that shape the outlook for entire property types. For example, replicating supply chains across borders could represent a net positive for global logistics demand, even if doing so is economically inefficient.[5]

[4] The Tax Cuts and Jobs Act was a major tax reform bill passed by the Trump administration in 2017, with many of its provisions sunsetting in 2025.

[5] Operations theory suggests that splitting one inventory pool into multiple, regionalized pools would increase the aggregate level of inventory required to achieve the 'optimal' safety stock that balances the costs of 'stock outs' against the cost of carrying inventory. More manufacturing/production space would probably also be required.

4 **Net impacts to ex-US real estate are also complex.** Geopolitical implications, such as those concerning Israel-Gaza and Ukraine, are difficult to predict and do not likely have major implications for the real estate markets where we invest. Regarding trade, tariff proposals are probably best seen as an opening for negotiation.[6] Europe may face minimal new tariffs if its governments agree to spend more on defense, a key ask of President-Elect Trump. But the outcome of any upcoming negotiations is a guessing game at best, and there is a wide spread of views on the probable impact to Europe of US tariffs.[7] Finally, it is worth analyzing potentially differential impacts across global markets. For example, services are not as likely to be subject to tariffs, reducing the impact of trade barriers on services and consumption-oriented economies like the United Kingdom or Spain, versus goods export-heavy Germany.

Variable impacts on specific markets aside, in our view the case for global real estate investment remains intact. In part, this is because the broader trend toward protectionism, potentially accelerated by Trump's tariff proposals, could lead to decreased return correlations across countries. National markets may begin to align less with global and more with regionalized or country-specific cyclical patterns. This could increase the potential diversification benefits of global real estate investment, the existing case for which we highlighted in our ISA Portfolio View 2024.

## LOOKING AHEAD

- Sitting between equities and fixed income, real estate is a hybrid asset class that combines sensitivity to growth with sensitivity to interest rates. Different scenarios for growth and inflation should be considered in the context of varying sensitivities to each across real estate sectors. In the global chapter of our forthcoming *ISA Outlook 2025*, we will introduce our new Portfolio Balance framework, which does just that.
- The net impact of the US election result on specific real estate markets and sectors depends on a complex interaction of multiple incremental factors, some of them offsetting. The regional chapters of the upcoming *ISA Outlook 2025* will provide a more detailed discussion of potential sector- and country-specific election impacts across the markets where we invest. Please have a read!


[6] This statement and others in this paragraph are based on analysis by Signum Global Advisors, the Economist, the Financial Times, Oxford Economics and Capital Economics.

[7] Capital Economics expects just a -0.2% Eurozone GDP drag from new tariffs, while many investment banks say tariffs, if enacted, could represent a -1.5% hit to European GDP growth.

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