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Strategic Real Estate Decision Making in 2022

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Practices: Real Estate

Annually chief corporate real estate officers must make numerous long range planning decisions based upon multiple micro and macro factors. In 2022, perhaps more so than in recent memory, navigating the myriad of macro factors impacting corporate real estate decisions presents a daunting decision-making landscape. While crystal ball gazing is at best perennially speculative, predicting real estate market forces in the current economic, political, and public health environment is tantamount to coin tossing. Nevertheless, there are for this year certain virtually inescapable assumptions which can be made, including:

- **Demand, Absorption, Occupancy and Pricing** for virtually all manner of industrial property, or property which can be readapted to industrial use, will remain at historically high levels and such levels will likely continue to rise, albeit not at the stratospheric rates experienced in 2021. Consequently, the corporate real estate executive who has delayed or may be considering delay of an expansion, purchase, or relocation in hope of a cooler market will likely have a long wait.
- **Costs of Borrowed Funding** will, relatively speaking, increase in 2022, though still remain at near historic low levels.
- **Land and Construction Labor and Material Costs** will continue to dramatically increase, though not as much as 2021, notwithstanding likely continued, but lessening, land and construction labor and material shortages and long delivery lead times.
- **Inflation** will not likely cool significantly anytime soon and in any event stay at levels far above those experienced in recent years.
- The failure of the current administration to advance the **Build Back Better Legislative Agenda** along with its potential significant tax law changes, which could have negatively affected the real estate sector, has all but assured the continued availability of existing favorable corporate tax and capital gains rates. It's also significant to note that the IRC Section 1031 tax deferred exchange will continue to be available to support the sale of appreciated real estate and acquisition of replacement properties while sheltering the sale gains.
- Lastly, **Employee Costs** will rise in most markets along with employee expectations for work environment flexibility and quality of life amenities. These factors will not only affect employee hiring, but also retention and should be considered among the key relocation and site selection criteria of corporate real estate users.

The bottom line for 2022 as to corporate real estate decisions may very well be that it is unlikely macro conditions will make things easier, less expensive, or quicker and that procrastination will really provide no overall benefit.