



Infrastructure Finance Trumped

Arthur C. Nelson, Ph.D., FAICP
Professor of Planning & Real Estate Development
University of Arizona



Themes

- Infrastructure was a key campaign promise
- But where is the Infrastructure plan?
- Trump's presidency and real estate
- Trump tax reform and real estate
- Trump tax reform and infrastructure
- Bottom line



Key Campaign Promise

- Use \$200 billion in federal funding to leverage \$1 trillion infrastructure investment. *Key feature is public-private partnerships.*^a
- But **PPP is dead**. Now it's “federal seed money” to leverage state/local investment.^b

a <http://www.politico.com/story/2017/05/23/infrastructure-transportation-trump-budget-238741>

b. <https://www.bloomberg.com/news/articles/2017-09-27/trump-reverses-course-on-plan-to-rely-on-private-money-for-roads>



Where is the Infrastructure Plan?

- The White House has plans to pursue an infrastructure plan *after* overhaul of the tax code.^b

b. <https://www.bloomberg.com/news/articles/2017-09-27/trump-reverses-course-on-plan-to-rely-on-private-money-for-roads>



Trump's Presidency and Real Estate

- **Higher Interest Rates**
 - Trump favors higher interest rates as they are great for investors.
 - Trump wants the new Fed Chair to champion higher rates.
 - This will lead to higher mortgage payments and dampen home buying.
 - Even though new mortgage issues are 45% below pre-Great Recession levels.



Trump's Presidency and Real Estate

- **Not Enough Workers**
 - Builders cannot find enough talent to meet real estate development demand.
 - Crackdown on undocumented workers.



Trump's Presidency and Real Estate

- **Fewer Immigrants by Decree**
 - Pre-Trump projections showed immigrants would account for
 - **32%** of household growth
 - **36%** of new home owner growth
 - Fewer immigrants means less housing demand, especially home owner demand.



Trump's Presidency and Real Estate

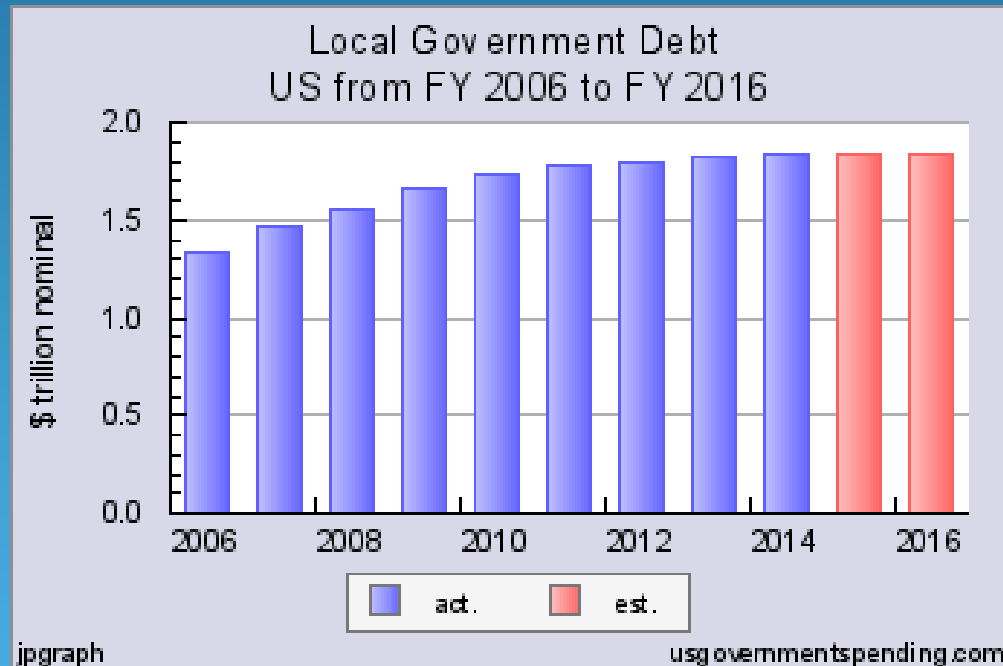
- **Rising incomes**
 - *Reduced immigration* increases demand for domestic labor thus higher wages.
 - *Reduced regulation* also increases demand for domestic labor thus higher wages.
 - Tax reform will *put more money* into people's pockets.
 - But *home ownership will not increase* because of tax reform.



Trump Tax Reform and Real Estate

- Brackets @ 12%, 25% and 35% with a hint of a higher rate for the Trumps of the US.
- Eliminates most itemized deductions but protects the **mortgage interest deduction** and charitable write-offs.
- Wipes out **state and local tax deductions**.
- Silent on **real estate depreciation** → but one would expect Trump will insist it remains.

Trump Tax Reform and Infrastructure



The numbers (*best available estimates*)

\$150B annual debt service

\$50B tax savings from deductions of general obligation bond debt service
against federal taxable income → **Gone** under Trump Tax Reform.



Trump Tax Reform and Infrastructure

- Borrowing *rates will increase* to compensate for lack of deductions.
- *Less infrastructure* will be bonded and thus less infrastructure will be built.
- *More* reliance on non-GO debt options such as pay-as-you go *impact fees*.
- But *higher impact fees* may be tied to higher debt service payments.



Bottom Line

- *Anti-immigration* policies dampen future ownership.
- There is *no* Federal *infrastructure plan*.
- Elimination of local property tax deductions will *reduce home ownership demand* slightly.
 - **BUT** as landlords deduct taxes as a business expense rental demand will increase slightly.
- Elimination of local property tax deductions will also *reduce locally bonded infrastructure* investments.
 - **INCREASED** pressure for more and higher impact fees.
- Trump's infrastructure plan seems *anti-infrastructure*.