Time for the Hail Mary?
Try Something More Conservative
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The global capital freeze and the companion economic recession have many real estate players close to catatonic. Having lost forward drive with the ball close to their own goal line, the captains of private industry have called in the government team to carry the ball forward again. After a few false starts that lost a little yardage, the government team is now huddling up to pick a play from a 1936 book by John Maynard Keynes, *The General Theory of Employment, Interest and Money*. While Keynes' plays have never been used in a really tough game, such as the one we face today, generations of economists and other would-be policy makers continue to study them.

Plagued with falling rents, rising capitalization rates, and lenders even more catatonic than they are, real estate investors and developers pray that the new captain of the government team will lead them to the goal of full employment and economic growth. Their prayers will almost certainly be answered. The only questions about the recovery are: Can the economy be moved into solid job and product-producing growth without igniting significant inflation? And when will it happen?

The answer to the second of these questions depends on the power of the drive inspired by the new captain and his ability to place that power where it will produce the quickest forward motion. Some historic downturns have lasted through several presidential terms. Examples of such long lived periods of economic deceleration include the period from 1836 to 1843, when Andrew Jackson ended the "land value bubble" by ordering the Federal Land Office to accept only gold and silver in payment, and the Great Depression of the 1930's. If recovery is to be quick, say by the first quarter of 2010, Congress will have to acquiesce to massive deficit spending. The President's team will have to focus on projects that can be implemented quickly and policies that galvanize lenders and consumers back into action. To increase the stock of money enough to provide the needed power without kicking off inflation will require luck, flexibility, wisdom and coordinated monetary and fiscal policy action.

At this writing, it appears that Congress will follow the presidential lead and take a chance on spending big. It is yet unclear if the money will be spent with the needed macro- and micro-efficiency, rather than political expediency. It's also too early in the game to see whether the government's policy can react to signs of improving business and consumer confidence with the fiscal and monetary policy shifts that will avoid both inflation and the risk of aborting economic recovery.

As I wrote in an earlier column, we may be in for a rocky ride. What is clear is that the recession has already changed consumer and business behavior in a manner that will last far into the recovery, whenever it comes. Consider the following signs:

- Guido Westerwelle, a German politico, replaces supermodel Claudia Schiffer at the Davos World Economic Forum
- Total credit card debt declines
- Prosecco replaces champagne at parties
- Netbook sales double while sales of desktop computers drop
- Computer cognoscenti drop cable subscriptions as they view video on line

The replacement of the buxom Schiffer as the celebrity attraction at the World Economic Forum in Davos, Switzerland, with the leader of Germany's Free Democratic Party is a reflection of a shift in economic power from the celebrity titans of global corporations to national political leaders. This shift is unlikely to reverse until long after the onset of economic recovery. The new values suggested by the remaining four of the above signs also will continue until we are well into the economic recovery, and perhaps beyond.

As is always the case, the time for real estate investors to begin preparing for the return of prosperity is while the black mood of economic recession still has us all in thrall. That's when costs are lowest, prices most likely to be bargains and time is an ally. But the goal of buying low now, to sell high later, will only be realized if you start with a program identification that understands the new psychology of relevant consumer groups and "listening-with-the-third-ear" research that pinpoints the buying priorities of the groups that can be attracted to alternative types of projects. Particular attention will have to be paid to the Generation Y-ers and the baby boom empty nesters that make up the two largest demographic groups.

Being in step with national policies will make product standards such as green buildings and clustered development important, but not necessarily sufficient. For example, it would be a mistake to assume that even gold certified buildings without workable climate control can expect to compete with buildings that have been built or remodeled to provide such amenities. By the time this recession is over, consumers will have been conditioned to seek bargains and will have lost their taste for ostentatious consumption. It will also be many years after the upturn in the economy before consumers are willing to bulk up on debt the way they were during the tail end of the 20th century.

While local and international bankers may eventually find or drill chinks into the new regulatory armor being crafted by the governments taking charge of the global economy, lenders won't install new imprudent lending practices within the time horizon of most new investments. Older real estate players may remember starting due diligence with pre-architectural programming and financial analysis of conceptual prototypical product options. When you call such plays before the ball is snapped, some will rightly think we're just going back to the basics.

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