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Time the real estate market? This time around we may have no choice

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As a real estate guy occasionally dabbling in the stock market, I often hear the axiom that you cannot "time the market". I realize that stock advisors are warning about timing in a relatively short time frame, not the long haul. They are really saying you should not try to trade on a weekly or monthly basis, as there are no predictors as to which direction the market will go in those short time frames. They also have an overlying belief that the market will eventually go up, and if you're in, you benefit.

If you do try to "time" the stock market, and you miss, you'll probably have manageable losses and reasonable solutions. You can stay in the market and wait for it to come back, without any additional cost typically. You have no operating cost, property taxes, usually no interest payment on loans, no banks threatening to take your stock, and no personal recourse against other assets. In short, you can probably weather the storm.

Not so with real estate. If you're in the development business, for example, you have to time the market. You have no choice, because the consequences of the "miss" are far more severe than in other markets. First, real estate cycles may be longer than stock cycles and you'll typically be on the downside longer. More importantly, during a down cycle the developer/investor actually has all of the expenses enumerated above. On top of the typical ones, lenders may be asking for partial payments of principle, and capital calls on partners can be very painful. In real estate, if you buy at or near the peak, you are likely in for several years of down time, and several years of growth to get back to where you were, thus figuring about 4 to 8 years of really wishing you hadn't made that last investment.

In the distant past, timing the real estate market wasn't that hard. The cycles were somewhat predictable, and you knew what side of the curve you were on typically. The main determining factors at work included demographics, job growth, amount of supply, market, rents, expenses, construction costs, etc. The data was typically available to analyze. It took a year for permits, a year to build, a year to stabilize, and you were fairly close to where you hoped to be. Over the last 20 years, however, predicting became more difficult, as other, more exogenous factors crept into the picture. Among others, we had the tech bubble when everybody was in love with technology companies and assumed their enormous growth would fill new buildings. More recently, we obviously had the finance bubble, where new financial instruments and creative lenders/packagers became the dominant factor in development. Perhaps most importantly, we have the global economy where new disclosures in Greece can affect, say, real estate in New York.

With credit tight at the moment (sometimes this can be good), and financing innovations slightly more retrained, the industry may get back to more of a bricks and mortar business. Perhaps we will be able to focus more on the fundamental issues of why we build buildings; that is, to provide shelter for workers, residents, or stuff. If we are able once again to analyze the factors that revolve around that notion, and the extraneous more volatile factors are constrained, we may well be better able to time the market cycle. I hope so, because, if not, the only ones who survive will be the largest, deepest pocket players who can weather any storm, for any period.

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