



NEREJ

Here we go again - Back to basics on budgeting

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It was October, 2008 and the stock market had just crashed over 700 points. The month was a disaster and the capitalist system was on the brink of collapse. It was also my deadline for this CRE section of the NEREJ. Fear was strong and I remember writing about 10 good things that would come out of the calamity. I also stated that it might more like heaven by 2011 (that prediction is off by 4 years, I think 2014 now). Well, the system seemed to right itself during 2009-10 and slowly recover with a lot of "parent" support. But then the summer of 2011 hit and Congress could not reach an expeditious settlement on the budget. Nor does it seem that there is an agreement on cost cutting line items as a Congressional Committee will decide in the next few months thereby stalling the process and questioning credibility. S&P decided to downgrade the U.S. Government and the stock market collapses. As I watched the stock market crash over 600 points on August 8th, somehow I was not in panic. For some reason, not being in a panic mood somewhat bothered me. Shouldn't I be upset?

First, we have seen worst and it happened only 3 years ago. So we feel a little immune because it has happened once. Second, panic is an emotional trait and therefore opportunities are missed. I don't want to miss out of some great discount pricing. Third, the October 2008 crash was a shock that very few imagined or foresaw the events that led to the October 2008 crash and certainly the timing of the crash. People aren't good with surprises. But this downfall (August 2011) was readable all summer due to the timeline of the Congressional Budget. We knew that August 2nd was a deadline and predictions had been made on "what if" the government does not meet its August 2nd deadline. Not as much of a surprise. Fourth, public companies are still healthy and have been stockpiling cash. They are not in jeopardy of going-out-of business. Fifth, many people took advantage of the last 3 years to develop reserves and to lock into low borrowing costs, slim payroll and not overproduce product. People are in healthy financial shape.

So what does this all mean? It's time to buy! Many of us were not prepared to take advantage of the collapse due to emotional fear. The U.S. Government is not going out of business and in early August the President of The Lending Tree stated that it was his busiest days in years. People were lined up to borrow and lock into even lower interest rates. I wonder if Dr. Gary Shilling was right in his new book "Age of Deleveraging." I have stated publicly that I anticipated high interest rates in 2011 but Dr. Shilling has predicted the opposite; lower interest rates, less personal and government consumption and therefore lower prices. The 10 year T-Note is yielding 2.1-2.3% after the chaos as people flee to U.S. Government obligations; that doesn't sound like a crowd that fears a Government collapse.

Global governments will be further cost cutting and reducing entitlements. The masses are not happy and so there is rioting. I see this as a turning point and revolutionary thinking to re-right the

ship and getting back to basics on budgeting. We need to live within our means as a country. Perhaps filing for bankruptcy as a country isn't a bad idea. Start over with a new congress people and get a budget that stays within our means. It would be chaos but then other countries are thinking "bankrupt." I also think these changes will result in stronger interest for investment real estate; the old fashion: "bricks and mortar." Cheap money could easily spur housing purchases and existing housing additions. Low borrowing costs will be even a greater catalyst for investing in real estate. This will be a busy time indeed.

Robert Nahigian, FRICS, CRE, MCR, is the 2011 CRE chairman of CRE/NE and president of Auburndale Realty, Co., Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540