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Fall: A time for action, but what more can we do?

September 13, 2012 - Appraisal & Consulting

The end of Labor Day week-end is always seemingly an abrupt change: Automatically, the weather seems colder and the days shorter, as we are yanked out of vacation mode. Long gone are those slower days of summer, with little purpose except to vacation or take it easy. Now it is time to work off the excesses of the summer, to do penance for our laziness and lack of purpose. Now is the time of renewed focus.

We will all attack fall with a new list of tasks so we impose control over the uncertainty of our real estate activities. But what can we really do to create this sense of control, which has been so elusive in the real estate business over the last few years. For that matter, in this fall of election frenzy, what can the President, Congress, or Federal Reserve do that it hasn't already tried? Answer: not very much, that is new under the sun.

What's possible under the aegis of stimulus? At the moment, a new quantitative easing (QE) program is teed up and debated, pending what happens over the next few weeks with the economy and employment. Simply stated, quantitative easing is commitment to keeping interest rates low, through whatever means at hand, presumably creating stimulus for the economy. Typically, the Treasury Department issues more debt in the way of notes and bonds. The buyers of this debt are comprised of individuals, institutions, foreign governments, and our own Federal Reserve. By far the greatest buyers are China and Japan, but their interest is waning. Last year, the Federal Reserve bought 61% of the debt issued in that time frame in order to make up the slack.

By continuing to purchase treasury debt, the Federal Reserve keeps demand up, thereby providing lower interest rates on the debt. This is simple supply and demand, whereby as the price of the commodity goes higher, the interest rate the government has to pay falls lower. Some say that interest rates are as low as they can go, and new Fed priming will have little or no impact. However, others believe that the simple announcement of new quantitative easing will add support to the stock market, and therefore private enterprise and jobs.

Lower interest rates clearly help real estate markets. We, as well as the government, can borrow money at the lower cost, thereby encouraging spending on new projects. People can buy houses; companies can spend on infra structure and people; existing debt can be paid down at lower interest rate costs. This type of stimulus certainly has worked before, resulting in spikes in various economic activities, particularly home purchases, which benefit one of the most troubled industries in our country.

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However, there are down sides to lowering rates at well. At both a government and private sector level, lower rates encourage borrowing for projects that might not be undertaken if it were not for the low cost of the money. Additionally, if rates go up, many of those projects relying on cheap money will be in trouble. Another problem is that when interest rates are low, there is little incentive to save because returns on such savings are diminimus. Without incentive for savings, there may be more consumption which overall helps the economy, but also provides people with little buffer against downturn. Thus, the Fed may not act because there will be little positive impact, and potentially some negative impact.

Needless to say, new stimulus is complicated and uncertain in results. When we consider our need to spring into action this fall and take whatever ambitious steps are necessary to ensure a productive year, we need to remember there are very few within our control. This is evidenced by a longer than normal recovery after recession, ups and downs in employment, housing, retail and other measures, and controversy as to which direction is best to improve things. Things are moving very gradually in the right direction, but there is little that we or our leaders can do to accelerate the process. Hope for the best, but don't expect too much for a while.