



nerej

Real estate development: Not a short-term game - by Daniel Calano

September 15, 2023 - Financial Digest



Daniel Calano

Real estate development, and investing, is not a short-term game, and certainly not for the faint of heart. Players risk a lot of time and money in the midst of much uncertainty. Over the last 15 years alone, they have endured the Great Recession of 2007-8, Tech bust of 2001, catastrophic weather events, COVID, increasing borrowing rates and tightening, culture shifts in office buildings, tenant bankruptcy, and retail store closings. The list goes on.

The oldest of these, and by far the worst for real estate, the Great Recession brought down big banks, and all-size businesses, sparing no group of people, from the rich to middle class to poor, and from all around the world. The Great Recession was also the longest event, with repercussions through 2015 and beyond. Many economists still debate as to how and where the Great Recession started. Some saw it coming, but none predicted the depth and length of problem. Few were prepared. While there have been some similarities recently, with a few recent bank closures, tighter lending, and both materials and wage inflation, developers and investors soldier on. Why? Because that's what they do.

So what is my point? My point is that many detrimental events happen in real estate, and some are unforeseen, and nobody can predict with certainty well enough to eliminate the guesswork. My mention of the Great Recession is, not to compare, nor to scare. It is very unlikely that anything like this will happen again soon, with so much force and impact. On the other hand, there have been recent events that could spread, co-mingle, jump barriers, and build momentum, in ways that cannot be foreseen. One for example, was the recent closings of the Silicon Valley Bank, with a few reverberations in the US and Europe. It did not amount to much, but in the process it was noticed and quantified with a lowering of US economic rating. Combined with the Federal Reserve insistence on raising short-term borrowing rates to almost 7%, and pressing harder than expected to lower resistant inflation, the distress could still have longer ramifications. .

You have all read recently about a growing real estate problem in China, potentially impacting many of their development projects, banking and lending, and ultimately their economy. Most recent news is that the communist government may well intervene with financial support. Sound familiar? But why would this be of concern? It's far away and it's only now of concern to us , simply because it's real estate.

We have little knowledge as to how this will impact the United States. We know our economies are tied to one another, both in demand and supply, but we cannot foresee the magnitude or length of potential impact. Some economists and pundits whisper that it could be impactful in various areas of the world. Nobody knows. It is simply another unforeseen, new event to be considered. Our economy is strong with high GDP and low unemployment, and we should be resilient .

For now, we can rely on our strengths, and deal with the issues we know. That said, be watchful of the ones we don't.

Daniel Calano, CRE, is managing partner and principal of Prospectus, LLC, Cambridge, Mass.

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