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Robert Marcus R.E. 2009 market predictions: The future will prevail but only after losses are realized

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Okay, it's January 22nd and here are my predictions for the rest of 2009:

Cool spring, hot summer, cool fall and freezing winter. During the summer months, traffic will be heavy every Friday afternoon going to Cape Cod, New Hampshire and Maine.

Now that I got that out of the way, I will make an attempt to forecast what lies ahead for 2009. What I hope for and what will happen are probably going to be two different things. What I hope happens is that the wide spread layoffs in the Boston business community stabilize, the hospitals change their minds and continue to purchase equipment and fund research and that the colleges and universities are able to keep education affordable enough to continue to attract young minds from all over the world. The need to keep all of these things in check are important in keeping the economy vibrant and the city alive.

The continued loss of jobs, loss of students and reduced hospital spending will spell disaster for an already ailing economy. In addition to these items, there's also the elephant in the room that we have grown to love "credit." Stepping back to the era of Ronald Regan and Reganomics, the idea that credit or lack of credit has a trickle down effect is nothing short of the truth. The need for business' to borrow is critical to the masses, it has a domino effect on everything from housing, education, the purchase of goods and services and employment.

With the current credit crisis and loans becoming due, currently there is a lack of "fresh money or new money" available to stimulate the current economic climate.

The need for businesses and individuals to borrow is paramount to the success of the rebuilding of a collapsed economy.

Currently, the residential housing market is very weak. The speculative nature of the single family residential market has been removed for the time being and replaced with a more conventional approach of "in the box" bankers thinking of 30% down with a mortgage of 70% payable over a 30 year period. In addition, a majority of builders and developers have stopped building due to bank credit and lack of buyers and the current housing stock is at an all time high. The recovery in this sector is 2-3 years away. My feeling is that the downturn in the 5 year real estate cycle has been exacerbated and lengthened by the securitization of the bad real estate loans also known as worthless collateralized debt obligations.

The commercial real estate market has also started to show signs of weakness. What we are seeing is the inability of the borrowers to pay the debt associated with their current financing agreements. This coupled with the vacancy and tenant loss due to downsizing and even business shutting their doors is a major cause of concern for the commercial financing world. In addition to these problems,

the short term notes or notes that are becoming due will be in trouble because the borrowers will be unable to get financed due to the problems with commercial banks. In my opinion, the future of this particular market will prevail but only after catastrophic losses are realized and somehow the banking crisis is rectified. Lester Thurow's zero-sum analogy will work best to describe the situation in which the zero-sum theory will need to play an important role in the economic recovery.

To predict or forecast the future, you must be able to understand the past. I believe that the economist, professor Milton Friedman's lag theory explains a lot in terms of our current economic crisis. Friedman says that changes in the supply of money, can have a destabilizing effect and in fact this is what is happening now and that monetary policy's goal should be to ensure a long-range stable growth rate of the supply of money. I believe that it's not going to be one thing that helps fix the economy and the real estate market but rather a combination of several theories and practices that will help put the market on stable ground these theories combined with fundamentally sound business practices will set the pace for future controlled growth.

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