

Symbiotic Relationship of Real Estate and the Local and National Economy

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Few sectors of the economy have such a symbiotic relationship with the local and national economy as real estate. It's estimated that real estate contributes about 10% of the total US economy's output. If true, then as real estate declines, so do construction jobs, financial services jobs, design profession jobs, construction materials and products related jobs (home furnishings, washers, dryers, refrigerators, etc.), thus increasing overall unemployment which further impacts demand for real estate (office space, homes, retail space).

A decline in demand causes a decline in real estate sales and leasing which eventually leads to declines in real estate values. This then reduces the value of everyone's homes and investments, whether they are actively selling or leasing or not. This results in reduction of equity which impacts our wealth. This, then, reduces consumer spending, and cycle continues. Here is how this impacts real estate. Over 70% of the U.S. economy is based on personal consumption. A reduction in consumer spending will contribute to a downward spiral in the economy. This results in further unemployment, further reduction in income, and further reduction in consumer spending. The only good news about lower values is that it lessens the chances of inflation. But its inflation we need to recover but not without any increase in wages that are equal to or greater than the inflation. Basically, as goes the economy so goes community growth and as goes community growth so goes real estate market.

The real estate market needs community growth. Community growth causes demand for real estate development and redevelopment. It is the real estate industry that actually builds communities – it is not State, City or Town governments, they just give direction and provide incentives (or deterrents'). So, what should the real estate industry be doing to help itself and help the local economy recover? It needs to be a strong proponent for investment by State, City and Town governments to invest in critical aspects of the economy.

What are those critical aspects? To answer that question you need to answer the question what things made this country the fast growing and prosperous nation it became? A middle class! It was the establishment and protection of equal rights and formation of a very strong middle class. Unfortunately, political ideology, in an attempt to privatize, deregulate and reduce the size of government, also greatly diminished investment in the very things that created our prosperity from 1945 to the mid 70's. It was a significant government priority and investment in education, infrastructure, research and the stance on immigration and rules for capital formation that caused our growth.

We have greatly reduced investment in education to freighting low levels; we have ignored our infrastructure to the point it is deteriorating and rapidly; we no longer incentivize research nor make it easy to protect innovation (we badly need to redo intellectual property right laws and have significant tax incentives for critical research) causing reduction in research and a reduction in innovation; our immigration laws are in need of significant revamping and our policies need to allow talent to come to the US and make it easy for it to stay as well as allow the "melting pot" to continue to fuel our growth; finally we need to deal with the laws that relate to

capital formation in an attempt to avoid the moral hazard and fraudulent behavior that helped create this recession, provide incentive for long term perspectives and not just short term, transactional profits that ignore impact on the greater community and economy and vigorously support new business formation and allow the growth of middle class wealth.

From the late 70's to the present we have reduced investment in these critical areas. During this same time period median wages for the middle class have been flat and most recently declined significantly. At the same time wealth for the top 5% has increased substantially creating an alarming disparity. This past decade has been the worst related to the factors mentioned above. Education, infrastructure, research and the stance on immigration and rules for capital formation have all deteriorated in the past decade.

If real estate industry wants to take a proactive stance and involvement in recovery of the industry, it must then take a proactive stance and involvement in increasing investment in education, infrastructure and research and push to fix immigration and rules for capital formation. By helping in these ways we will increase demand local growth and thus demand for real estate.

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