

Gary London >>REAL ESTATE

The 2009 Real Estate Market Is About to 'Reset'



Prediction is an elusive thing. No one knows what the New Year will bring.

Just one year ago most economists were projecting that our economy was in a temporary setback and would be corrected shortly.

Many took exception to the very idea that we were in a recession.

That was not true. Conversely, why would it be true that we are in for a long-term downfall?

What super powers of predictive capability have we acquired that make so many economists and pop pundits so certain of the future?

One way to measure is to look at the severity and tenure of past cycles, using those as the yardstick to measure our present crisis.

But past is not prologue. We may be setting up a whole new economic era. There may be no yardstick to measure how it plays out.

It is just a fact of our breed that we more easily embrace the popular herd mentality of the supposedly knowledgeable and authoritative among us who gloomily predict a bad year.

Now, they may very well be right. But prediction is more about our psychology than about our trends.

If you follow the news no doubt you are bombarded by the many stories of business failure, be they in real estate, Wall Street, Main Street or global.

How many homes have we visited on the TV news which have been foreclosed and abandoned, stripped of appliances and lighting fixtures?

At some level, it really gets to you. And what do you do? You take a fresh look at your family budget. You cut out the fat. You go to work, and you stop the subscriptions, memberships, cut staff and generally trim the budget.

Multiply this by the millions and you have an economic downturn.

The point is, just as easily, there can be an upturn.

Reasons To Be Upbeat

Do I really expect it? On a rational level, no. But I am a positive guy. There are reasons I can feel upbeat, including:

- We are about to inaugurate a new president. His ability to create change is no less than monumental. Not since Franklin Roosevelt will a president be given such carte blanche to effect change. This is a transformational moment in time.

- The economy, including the real estate market, may have finally arrived at, or is just before or just past the bottom. I am not certain, but it feels that we are hovering in that territory somewhere. For those of you with long memories, it is 1992 again, about three years off the market peak. Things started to improve from there, and reached full recovery three years later. (Full recovery, in this case, is defined as a return to the 1989 peak real estate values.)

- There are huge capital reserves on the sidelines, at almost every level, waiting to be invested at the right time.

- Bailout money is coming. We won't know exactly in what form for another month or two, but new money for infrastructure spells investment in the community that is targeted to kick-start a faltering economy. It might eventually work.

Old Rules May Not Apply

Most suggest, and I am among them, that this economic downturn is different. By inference, the old rules of economic cycle may not apply. If that is the case, I buy into the idea postulated by Jeffrey Immelt, the CEO of General Electric, who recently suggested that "This economic crisis doesn't represent a cycle. It represents a reset. It's an emotional, social, economic reset."

The very concept of "reset" suggests a re-examination of our entire financial and manufacturing systems and start again.

This is appealing because I am also inclined to accept the Thomas Friedman thesis that the world is "Hot, Flat and Crowded." That is, due to global warming (global "weirding," he calls it, because it is more about climatic change than just warming), intertwined problems of a shrinking globe and overpopulation of the developing nations, we must reexamine and adjust our way of life.

The United States will undoubtedly once again become a manufacturing economy.

We will gradually increase our creation and, ultimately, net export of many of those goods we gave up to the Chinese to make for us including automobiles (smaller and greener) and many other consumer goods.

And no matter who produces those goods, we will consume less of them. Bad for China. Good for us. That is "reset."

In the world of land use and real estate, change is easy to accept because it is the fundamental mantra of this industry.

We continually examine demographics, economics, lifestyle, perception and all of the other elements of "market-place" to look for "demand." What I have concluded is that beginning now:

- Households are becoming smaller, because they are both younger and older at the same time (aging "baby boomers" and also first-time households known as "Gen Y").

- Most housing will be built denser, challenging the scale now in place in most communities. This will be an evolving fact of life in San Diego and will play out incrementally and gradually.

- Most housing units will be smaller, reflecting these smaller households coupled with the need for density. Housing costs, which are now stabilizing, will remain high, however.

- Few units will be delivered in 2009, and of those that do go forward, most will be apartments, reflecting a strong demand for rental and a current shortage.

- Many commercial projects will fail in

2009, the result of retail and commercial failures. Few new projects will be built.

- A fair number of these shopping centers, auto dealerships, older office buildings, warehouse and industrial sites will become candidates for new land uses. Mainly, these new uses will become "mixed-use," involving residential and commercial projects together on the same site.

- Policy makers will be faced with tough decisions to accommodate this need to "reset" our land use thinking. They will be thinking about the push back to change, which will be the basis of community resistance to new development. And they will also be searching for new ways to accommodate the considerable costs of upgrading infrastructure and services in the communities.

Along the way, 2009 will be a year of continuing valuation "reset." I believe most of the valuation decline in the residential sector has already occurred. It is the commercial sectors that are next to fall.

While there is currently a "bid/ask" gap between buyers and sellers, and as a result there are relatively few transactions, eventually a re-pricing will occur.

Or, rents will simply adjust downward, meaning that the "new" economics of real estate will eventually reconnect with the "new" economics of retailing, officing, renting or owning. And a "new" dynamic will come to pass: a more affordable business and residential environment.

No matter what the scenario, or the timing of the recovery, we are setting up for change. We are an optimistic people. We want to recover, and we are ready to "reset."

While it is very unlikely to be a banner year, 2009 will be a new beginning. Happy New Year.

Gary H. London is president of The London Group Realty Advisors, which provides real estate consulting and economic analysis. Check him out on the Web at londongroup.com.

SBA Partner Scores With Small-Business Classes

BY TARA SHARP

Despite the shaky economy, 21 percent of small-business owners nationwide polled in December believe conditions are getting better, up from 15 percent in November, according to Discover Card's monthly national survey Small Business Watch.

John Bjeldanes, vice president of programs at Score San Diego — the local office of a national nonprofit partnering with the U.S. Small Business Association — says this survey reflects the levels of participation he's seen from local small businesses and startups the past few months at his workshops and counseling sessions.

Score held 198 workshops with 4,400 attendees in the fiscal year ending Sept. 30.

The workshops cover such topics as developing a business plan, Internet marketing, financing and QuickBooks. These programs cost from \$29 to \$99 and are held at Point Loma Nazarene University's Mission Valley campus or Score's downtown office.

Up until the end of September, attendance and counseling activities compared favorably to 2007, says Bjeldanes.

A Giant Shock

Then in October, Score suffered a 20 percent drop in attendance from new busi-

ness startups. Attendance rose 10 percent in November and jumped back up to 2007 levels in December.

"There was a giant shock at the first of October," said Bjeldanes. "People just kind of stayed away from everything, stayed away from business."

Bjeldanes believes the drop in attendance from startups had to do with the economy coming to its tipping point.

"When lots of people are concerned with the economy, they stop making big purchases, and starting a business is a big purchase," he said.

Although attendance from startup businesses dropped in the fall, there was a 5 percent increase in October over 2007 in requests for counseling and workshop attendance from established business attendees. Participation in December was comparable to December 2007.

Currently, the most popular workshops deal with marketing promotion or financial management for those already in business.

Addressing another timely issue for small businesses, Score held a panel discussion in December titled "Surviving the Downturn."

The big topic was cash control, says Bjeldanes, essentially the organization and documentation of a business's financial exchanges.

Cash Conservation

Small businesses are concerned about how they can conserve cash when dealing with an uncertain future and they want to market their businesses without making a huge investment.

He says Score plans on increasing recession-related workshops and discussions at chambers around the county.

According to Bjeldanes, the community-based and small service operations, such as the corner grocery store or fitness center, are the businesses not dramatically affected by the recession.

"The ones that are hurting are providing a product or service that requires a large investment: housing, remodeling, construction, or large ticket items such as automobiles, refrigerators," said Bjeldanes. "Customers are holding back from purchases."

Because banks have tightened lending requirements, a big worry is borrowing money. But while cash may be tight, marketing needs to stay a top priority, says Bjeldanes.

"They need more marketing instead

of less. The key is not to simply drop the price to the ground, but perhaps to give more value to what they are selling, like two-for-one offers," said Bjeldanes.

Businesses doing well have supportive customer bases that they are in constant communication with, he says. Whether it's over the Internet, in person or with newsletters, these entrepreneurs are nurturing their client base and aggressively marketing their products and services.

Bjeldanes cites **Heart to Heart Gifts**, a Web-based business, as an example. With a warehouse in Oceanside, the site is doing well selling such items as party dresses and room decorations for little girls by informing clients about new products.

The following are samples of upcoming workshops sponsored by Score:

- Internet Marketing 101 — Jan. 9 from 9 a.m. to 3 p.m. at Point Loma Nazarene, 4007 Camino del Rio S., San Diego.

- Financing Your Business — Jan. 12 from 9:30 to 11:30 a.m. at Score Entrepreneur Center, 550 W. C St., Suite 550, San Diego.

- How to Start and Manage Your Business — Jan. 13 from 9 a.m. to 4:15 p.m. at Point Loma Nazarene on Camino del Rio South, San Diego.