

YOU DIDN'T BUILD THAT ALONE!

The suggestion that I reflect on lessons learned from my six decades' love affair with real estate has been thought-provoking. My first thought was of Isaac Newton's comment about seeing further by standing on the shoulders of giants.

It has been my good fortune to have learned from a number of giants of our time. Their message about the importance of character and competence—doing the right thing and doing it with professionalism—has been proven time and again. Learning not the “tricks of the trade” but “the trade itself,” and earning a reputation for reliability and for operational expertise have always been a winning combination.

Another lesson is the importance of understanding the conventional wisdom but knowing when it is crucial to think ‘outside the box.’ Our tendency is to assume that all trends continue, but in the real world fluctuating economic cycles and demographic changes, changes in public taste or values, and “black swan” (unforeseeable) events do occur. Charles Mackay's 1841 classic *Extraordinary Popular Delusions and the Madness of Crowds*—which should be on every student's required reading list but never is—tells of the “bubbles,” manias and witch-hunts of the past and those that inevitably will take place in the future. “Bernie Madoff,” “sub-prime mortgages,” “Lehman Brothers”—these are stories with old plots but new names.

In America today, we are at economic and social inflection points whose timing and impact are unclear, unlike the decades after World War II when my career began.

From the mid 1970's, when I first saw 116 acres of nearly empty fields across I-95 from the Pentagon, to the moment in 1991 when Pentagon City received the Urban Land Institute award as the nation's best mixed use development, what I was doing seemed obvious. Similarly, developing office towers in Boston's burgeoning financial district in the 1970's—when good sites, enthusiastic public officials, many prospective tenants and abundant mortgage money were all available—seemed like shooting fish in a barrel, as was my brother Fred's development of residential towers in Manhattan. No one would claim that today's path is as clear.

At this moment—Autumn 2012—the problems of our national economy are so formidable that they overshadow everything. American resilience, flexibility and common sense ultimately will prevail. But it may require a crisis and an aroused citizenry demanding that our short-sighted legislators retreat from destructive partisanship and resulting gridlock that make it impossible for government to function effectively. Our excessive government expenditures and inadequate tax revenue produce deficits that are not sustainable.

To make matters worse, public confidence in our national institutions is at an all-time low. America is suffering from a profound crisis of authority; we have little trust in the integrity or competence of our political leaders, our bankers, our corporate chieftains, our educators, our news media, our law courts, even our religious leaders. When polls show a 10% public approval rating of the job Congress is doing, one wonders on what planet that 10% is living.

Fears of a 'fiscal cliff'—\$600 billion in automatic tax increases and governmental spending cuts set for the end of this year—are already dampening private spending, postponing business investment and coloring short term economic decisions. Uncertainty about tax rates, the continuity of government programs and the threat of another governmental shutdown over a debt ceiling increase encourage caution which further weakens an already feeble recovery. Add negative external factors—a worsening Eurozone crisis, slower growth in China and in emerging-market economies, turmoil in the Middle East which

may lead to higher oil prices—and it is difficult to be optimistic in the short term. With interest rates historically low, government options are few. After the 2012 elections, Congress will be under pressure to face the entitlement reform and revenue increases we need to balance our budgets over time.

The pendulum swings back eventually, however. 2015 is the year auto industry forecasters predict the first 16 million car sales since the financial crisis began; just as current pessimism can be a “self-fulfilling prophecy,” so can auto industry optimism. Volkswagen is opening a new plant in Chattanooga, planning to double its U.S. sales. Honda is expanding production facilities in Greensburg, Indiana; Kia is expanding in Georgia, and Hyundai in Alabama—all these facilities will be ready before 2015.

Goldman Sachs expects housing starts to reach 1.4 million in 2015, up from 700,000 this year. The durable goods sector of the economy—which produces products that last more than three years—also is preparing for an upsurge in demand in 2015. The multiplier effect will be impressive. By 2015, personal debt is likely to be reduced, home equity values increased and, most important, some expect America to achieve energy independence from Middle East oil by then, with a corresponding lowering of oil prices.

Although Europe may face an economic and social ‘lost decade’—as Japan did in the 1990’s—our economy can rebound if legislators make the short term, intermediate and long term compromises and trade-offs indicated in “Simpson-Bowles” thinking (\$3 trillion in budget cuts and \$1 trillion in added revenues over the coming decade). Reduced military budgets will require informed discussion about our engagement in “wars of necessity vs. wars of choice” (Richard Haas) and about fighting our battles by “hard vs. soft power” (Joseph Nye).

When Americans spend less on consumer goods and invest more on education, scientific research and public infrastructure (and infrastructure); when we borrow less and save more; when an appropriate balance between public goods and private goods is restored; when

equality of opportunity again becomes an accepted American goal, and when our politicians are no longer for sale to the highest bidder, we will regain our momentum toward a constructive future.

No crystal ball is unclouded and there are no easy answers, but we must make prudent 'guesstimates' and assess reasonable probabilities. In the world of real estate, Joel Kotkin believes that the suburbanization of America will continue; but Alan Ehrenhalt points to trends showing exurbia shrinking, suburban middle classes re-attracted to the city and some inner city poor moving to older suburbs. If the tax-deductibility of home mortgage interest is lessened or mortgage lending standards are tightened, the negative impact on suburbs will be significant. Richard Florida feels that future workers will change jobs more frequently and will prefer the flexibility that renting homes rather than owning them permits. Edward Glaeser praises high density center city development for its face-to-face interaction, stimulus to creativity, competition, social and economic diversity and social mobility. Everyone predicts continuing gentrification (Harlem is now 10% middle income non-black and Jane Jacobs would be dismayed to see her economically-diverse West Village commanding the highest rents in New York). That future development will be ecologically sound and environmentally sensitive is a given.

My own belief is that high density rental housing—with smaller apartments, smaller rooms and lower rents—built near suburban mass transit stations (with retail and recreational facilities adjoining) will be an increasingly popular model. The appeal of housing, retail, recreational and cultural facilities in downtown office and industrial centers will continue to increase; Rose Associates' current high quality residential conversion of the 66-story, one million sq. ft. Art Deco office tower at 70 Pine Street near Wall Street is an example. The conversion of unused rail facilities into Lower Manhattan's wildly successful "High Line" is another.

Over the long term, the mutually reinforcing factors of automation and globalization will transform American society. The automation story is told eloquently in the recent N.Y. Times headline "Skilled

Work Without the Worker”; and globalization’s impact on sending jobs overseas is universally recognized. The prospect of well-paying high tech and managerial employment for the well-educated few and low-paying ‘service’ employment for the less-educated is a challenge our society must face constructively.

Educating our youth appropriately in light of socio-economic patterns requires dramatic new educational thinking.

Stimulating economic growth and increasing national income while apportioning the proceeds fairly require new economic thinking.

Balancing the needs of the young, old and underprivileged while providing necessary incentives and rewards for those producing our income require new social thinking.

EDUCATION

In 1870, when British factory owners found that their illiterate workers could not compete against literate German factory workers, and British politicians realized that the Reform Bills of 1832 and 1867 had given the vote to illiterate farmers who could vote against them, Britain passed its first compulsory education law not to benefit the workers and farmers but to help the nation (i.e. the rich and powerful). In 21st century America, the 1% must realize that an educated, motivated and productive 99% is in their best interest in an internationally competitive world.

Universal pre-school education—which instills in a child the self-discipline, self-confidence, curiosity and future-mindedness that are necessary pre-conditions for educational success—is an important first step. And the message must continue through elementary school to avoid “Head Start fade-out.” The rest of the world—especially China and India—is increasingly providing good pre-schooling. Europe already does—98% of Finland’s children receive excellent pre-schooling while fewer than half of American children do.

High quality teachers (drawn from the top 10% of the academic pool, as in Finland, rather than the bottom 25% of the academic pool, as in the U.S.) are key ingredients in the educational process at all lev-

els. Pay, perquisites and prestige should be high enough to attract and keep the best teachers.

Teachers should be held to high entry standards, given opportunity and encouragement to continue their professional development, and recognition for outstanding performance. When teachers are determined by fair methods to be inadequate, they should be removed. (In Europe, teachers are considered professionals; in America they are viewed as union members, and treated accordingly.)

All children should be encouraged to advance to their highest potential.

At the high school level, German- and Swiss-style vocational and apprenticeship options should be offered to those desiring them, and we must rethink the question of “life-preparation” for those for whom conventional schooling has not been successful.

At the college level, we should expand and improve community colleges and junior colleges, which can be either “final” or “transitional” to four year colleges.

A “bigger bang for the educational buck” should be a national priority, with higher quality and lower costs achieved by longer school days and school years; we need an end to “lifetime tenure” for senior professors and more efficient use of faculty, including on-line education and “live” teaching available for face-to-face interaction when discussion, questioning and personal intellectual involvement are indicated.

Higher education in the sciences (four year college, graduate and postgraduate) should be available without cost—as a national investment—for those who qualify.

Expanded intramural athletics and an end to inter-collegiate athletics would lower college costs by as much as 10%, and produce healthier college students and fewer who later become “couch potatoes.”

Producing an educated public with the knowledge and skills required in the 21st century should be a national priority, and the expenditure to achieve that must be considered our most important investment in our future.

OUR ECONOMY

How to stimulate economic growth and how to apportion the proceeds appropriately are questions our politicians should be debating, not “big government” vs. “small government” but how to achieve smart government—transparent, efficient, respected for its fairness and wisdom. We should consider revenue producers like the V.A.T. (Value Added Tax), universal in Europe, a tax on consumption rather than production without lessening incentives for high earners (with proceeds dedicated to scientific research programs, an infrastructure bank, etc.).

Since we cannot indefinitely distribute (or redistribute) wealth we have not created, we must allow and encourage our free market economy to ‘make the pie bigger.’ This requires: a) national savings guided by our financial sector to productive use by our innovators and entrepreneurs; b) incentives and rewards for wealth producers and c) investment in human, industrial, mineral and social capital.

The proceeds (the U.S. \$16 trillion GDP) of our ‘farm’ should then be allocated by market forces or by government dictate: to reward the “farmers”; b) to replenish the “seed corn,” and c) to distribute to “others.”

In the past, our economy grew because we reinvested much of our proceeds in the future. Today we live for the present and consume not only all we produce, but all we can borrow from others or steal from the next generation by increasing the national debt and incurring multi-trillion dollar unfunded pension liabilities.

The economist Arthur Okun wished to be remembered for Okun’s Law which states “That which is not sustainable will not be sustained.”

SOCIAL THINKING

Although our cyclical economic problems can be dealt with by short term stimulus and long term rebalancing, our social problems are more complex.

One important problem is the growing stratification in American

life— not by color, religion or ethnicity but by education. The less-educated have fewer “life chances” in employment, health, family stability and life satisfaction. One quarter of U.S. students do not finish high school, and some 40% have no post-high school training. How will they fare in an increasingly competitive world?

In that world, America faces a “new normal” of inadequate job creation for our growing population. The resulting levels of unemployment and underemployment will have profound social effects.

When Work Disappears by William Julius Wilson and *Citizens Without Work*, the 1930’s classic by E. Wight Bakke, describe the destructive psychological impact of long term unemployment, and Nobel Laureate Edmund Phelps’ *Rewarding Work* discusses the degree to which our employment—or lack of it—defines us. Providing employment, no matter how uneconomic, is less destructive than creating a culture of dependency, which demoralizes and immobilizes its victims.

CONCLUSION:

Future historians may describe the period from 1945 to 2000 as “America’s Golden Age.” During that time, “American” was the thing to be, New York was the place to be, real estate development was one of the things to do; and I was fortunate to have it all.

Born the week of the 1929 Great Crash, I celebrated my 70th birthday shortly before the World Trade Center terrorist attack.

The “we’re all in this together” mindset of the Great Depression; the cocky determination of WWII; the G.I. Bill and Levittown optimism of the decades following the war; the sense of relentless progress in the Civil Rights advances; the social turmoil of the hippy, Beatnik late ‘60’s; the smug complacency of our economic advances in the ‘80’s and ‘90’s; the troubled soul-searching after the George W. Bush years; the anxiety of the Great Recession – I experienced them all, but the fundamental characteristics of American society remained constant.

The widespread pessimism and loss of self-confidence America is

experiencing now will pass; but it will require some upheaval or the emergence of a charismatic new leader to galvanize us into action.

The self-absorption and focus on narrow material self-interest that pervades all aspects of American life today are, I hope, temporary. A more communal-minded, future-minded ethos, with less emphasis on material possessions and more on life experience and satisfaction will prevail in time. Our young may focus less on the verb “to have” and more on “to do” and “to be.” With such values, our rich won’t deny proper free school breakfasts to our poor school children; a Da Vinci, a Mme. Curie or an Einstein born to poor parents will have the opportunity to develop his/her God-given talents. The vitality of our cities, the dynamism of our cultural life and our justifiable pride in the fairness of our society will again be the envy of the world.

Printed on every U.S. dollar bill (above the pyramid) is the motto *Annuit Coeptis*—“God has favored our undertaking.” Our Founding Fathers believed that, and so do I—now and for the future.

Narrow material self-interest may reign today, but as Shelley said, “If winter comes can spring be far behind?”

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