

# REAL ESTATE FINANCE

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## The New Burning Issue: We're Just Plain Boring

**D**uring the latter part of the twentieth century, real estate (particularly commercial real estate) experienced several significant ups and downs. In the late 1960s, there was tremendous excitement about the tax supported run up in prices. Likewise, in the late 1970s, the S&L-financed development rush and the related "opportunities" presented by the early 1990s S&L bailout were both fun and profitable. Even the stagflation driven market disaster of the middle 1970s and the massive repricing of the late 1980s following the collapse of the Japanese pricing umbrella were periods of high excitement as we struggled to "Stay Alive Until 95." Throughout this long period, the boldest and most fun (if not always the best and brightest) of graduating MBAs flocked to real estate. It might not be the career mom had in mind, but there was always plenty of action.

As the millennium turns, there has been a clear and striking change. Conduit loan underwriting no longer provides nearly 100% financing (we miss you Nomura) and the opportunity funds have gone abroad. Only the truly unimaginative MBA can pass on the potential dot.com career for a future in real estate. On Friday, December 18, the stock tip in Warren Buffett's charity-auctioned wallet set off a huge 4% rally in the long depressed REIT equity market. Could this be the start of another April 1999 with a run up of nearly 15% in prices? The *Wall Street Journal* simply ignored the event. We simply aren't newsworthy in a world where the Nasdaq is up 75% for the year.

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Let's review the facts that characterize this fundamental environmental shift:

| <b>The Industry We've Known and Loved</b>   | <b>Today and Tomorrow</b>  |
|---|--|
| Fewer formal rules than the rest of American business with more room for style over substance | A lot more publicly available data, and public markets which punish people like Penner and Sternlick (or at least their investors).  |
| Lots of capital per person  | The CMBS market is still growing, but dot.com Land has cheap capital with no related income requirement. They have created whole new levels of wealth. Bill Gates' share of Microsoft equals the value of the entire REIT sector which has the remains of several of the great real estate family empires. |
| Decisions have a big impact on how our society will live                                      | The built environment is still important, but telecommunications is enabling possibilities on a scale and at a pace never before seen.   |
| Lots of change, particularly unexpected radical change  | The new urban infrastructure (the internet and the enabling technologies which may be attached to it) look to be more revolutionary than cheap cotton, national railroads, invention of the automobile and creation of the interstate highway system combined.   |

Bummer. I'm starting to feel like a farmer. And it gets worse every time my dot.com daughter asks, "Dad, why don't you get a fun job?"

**Mike E. Miles**  
**Editor**