

In A Dry Season

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Forest fires have been one of the key themes of news during this summer. Large portions of Arizona, Colorado and Oregon have been devastated by the blazes and even the venerable and treasured giant sequoias of California have been threatened. While other stories have come and gone, the sheer fact that the forests were being consumed remained a constant. The American economy has been threatened by another kind of forest fire, the collapse of the stock market in the wake of the scandals rocking American business. And the devastation, while less obvious, has been no less severe.

The failures of Enron, Global Crossing, K Mart and World Com, along with the shadows cast on such institutions as Martha Stewart, have introduced significant doubts among investors. Was the bull market of the Nineties a sham? Is there any real value in the market? Can we trust the reported earnings of American corporations? Seemingly, investors have answered yes, no and no. More importantly, "investors" has become a much more inclusive term. As a result of the expansion of the Nineties, half of all American households now own corporate equities, either directly or through retirement plans. While the word "panic" is too strong, widespread concern about the market is all too much with us.

There are two significant results from the downturn. The negative result is that consumers, feeling less wealthy and therefore less confident, will cut back on their spending. This will at best stall the budding economic recovery and at worst will bring back recession. This effect will be mitigated by low interest rates, which allow consumers to refinance their real estate holdings, and take money out to sustain consumption. But the sheer volume of losses from dropping equity prices will overwhelm even this eventually.

The positive result of the market plunge is that investors are transferring wealth into housing. There are strong demographic reasons for the boom in the housing sector, but the surge has also benefited from the unattractiveness of stock market investment. Real estate is increasingly seen as the safe haven for wealth, one that won't reverse course as suddenly and as drastically as the Dow.

But just as a burned-out forest regenerates itself gradually, with animals, birds and vegetation returning slowly, American business and the stock market will also recover from this debacle. It will take time. Once convinced of something (good or bad) investors and consumers are slow to change. The loss of confidence we have seen over the past months will not be immediately restored. Rather, the next two or three years will see a gradual rebuilding of equity values. For those in the market for the long haul, this will not be a problem. Baby boomers, for example, can sit on their retirement assets and wait until the forest is restored to full growth. It does extend their work horizon further, but it is not a death blow. In the meantime, real estate will still be the favored asset and will still roll along.

There is another lesson from the forest fires of the summer of '02. Even those forests that did not burn must be carefully managed if they are to thrive. Cuttings need to be replaced by seedlings, and fore damaged requires new plantings. Neglect will court disaster. The economy and your business are no different. The U.S. discovered in the Seventies that neglect of its capital stock caused the mantle of economic leadership to go to Germany and Japan. We suffered through a painful period because we did not modernize our productive resources as we needed to.

Your profession is the same. Unless you keep it "evergreen" it will either wither away or be consumed by fire. Success in a world of change requires lifelong learning. When you think you know it all, the time is ripe to learn more. The explosion of business tools brought about by technology is a good case in point. What do you need to create value for your customers? The answer to this will differ from practitioner to practitioner, and more importantly, from time to time for the same practitioner.

As attractive as technology may be, the story does not end there. There is much you can learn by looking both at the business practices of both your peers and those in other businesses. Your seedlings are the ideas that you can see being successfully implemented in the business world; your plantings are the translations of those ideas and practices into your own business. The lesson of nature is that regeneration is the normal state of the world. You need to be an active agent of your own continual regeneration.