

1989 ECONOMIC OUTLOOK

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The major issues involving the real estate industry during 1989 will primarily focus on four major concerns:

1. Monetary policy and its effect on the economy
2. The Technical and Miscellaneous Revenue Act of 1988 (TAMRA)
3. The Affordable Housing Problem
4. Thrifts restructuring and bailout proposals

Firstly, the monetary policy as controlled by the Federal Reserve continues to tighten through March with Prime pegged at 11.5%; Federal Fund rates at the 9.75% to 9.875% range; and the discount rate being increased to 7.00%. All of these steps are the signs that the Federal Reserve is aggressively tightening the availability of money and credit to the economy in a hope to reduce inflation and improve the value of the dollar. Although the Federal Reserve's policy is directed toward slowing economic growth, caution should be taken to avoid another major recession.

The 1988 TAMRA Act once again affects the real estate industry with new provisions or amendments to low income rental housing tax credit recapture; restrictions upon the use of tax-exempt bonds to finance the acquisition of existing residential rental property which requires certain low income tenant ratios; passive loss rules; investment credit limitations; and the treatment of installment sales provisions. These are several of the major real estate issues which further reduced the tax benefits of investing in real property.

The affordable housing problem has reached significant proportions with monthly average carrying costs on conventionally financing homes now reported to exceed \$1,000 a month, inclusive of taxes and insurance. The average sale prices for new homes also rose to \$150,500 in 1988, and increase of 8.8% from the 1987 average of \$137,200 according to a recent U.S. Housing Market report. This situation is further compounded by insufficient household incomes needed to qualify for a loan to buy the average-priced home. Should the affordable housing problem not be addressed, some economists predict that 6% of the U.S. population will be living as the "Hidden Homeless" by the Year 2000.

Finally, the thrifts demise is predicted to continue through 1989 with continued bailouts and takeovers inevitable. Moreover, the FHLBB capital rule proposal, if approved, will force thrifts to raise new capital in order to meet the rule's capital asset requirement. The purpose of this ruling will require thrifts to restructure their balance sheets with higher capital and reserve ratios. If approved, many thrifts will find it difficult to attract capital, especially when compared to the present high yields available from other forms of investment vehicles (e.g. T-Bills, CD's, etc.)

To summarize, 1989 will prove to be an interesting year in terms of the economy and possible signs of a recessionary 1990. Certain Federal Reserve policies have reduced the flow of money, but should the consumer price index and production continue to escalate, a further tightening of money is imminent. Tax reform has once again affected the real estate industry by reducing the tax benefits

involved in real estate development and ownership. The affordable housing problem has reached a crisis level. In fact, a recent Leventhal affordable housing model indicates only 37% of U.S. households have the income required to qualify for a loan to acquire an average priced home. Lastly, the continued bailout and restructuring of the thrift industry will continue over the foreseeable future with no immediate signs of abatement, thus reducing their active involvement in real estate financing and potential bank mergers.