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Question of the Month: Government downsizing and lower universal taxes: Are we ready for the free market again?

February 09, 2015 - Upstate New York

The commercial real estate market throughout the Northeast has been the most active in many years. Some of the lowest interest rates in modern times along with various tax abatements, grants, tax credits, etc. have contributed. Large companies are especially positively affected because of the booming stock market which has supplied substantial funds for expansion, research/development, and enhanced quality.

As an appraiser for 41 years, I haven't seen the large number of commercial sales in the market since the best years of the Reagan administration in the mid 1980's. That recovery was based upon direct and indirect tax cut policies and not much other intervention by either the government or the Federal Reserve. The current recovery is being bolstered by huge action by the Federal Reserve in the form of quantitative easing and "printing money." The Federal Reserve doesn't actually print money; only the Treasury Department does that. However, the Federal Reserve creates credit policies that make it conducive for creating capital which stimulates the economy. The government can directly "stoke the fire" by using fiscal policies of direct spending or tax cuts. The federal government certainly has been doing their share of spending over the past 6-7 years. Of the current national debt of $18 trillion, approximately 40% has been accumulated during the past 6-7 years. "Cash for Clunkers" was a government spending program which boosted the manufacture of new cars. However, it's debatable whether there was adequate payback. Solyndra was another example in which $535 million was guaranteed by the government. Because of the Solyndra bankruptcy most of money has been or will be lost.

Local and state governments also participate in fiscal stimulus. In New York State, governor Cuomo is putting hundreds of millions of dollars in a project called River Bend in south Buffalo. One of the companies is going to manufacture solar panels (Silevo) and the other (Soraa) "LED" lighting. The uniqueness of this project is that essentially the state will own the land, own the buildings and own the equipment. Also, at least in the construction phases, they are dictating various labor requirements including prevailing wages. It's not clear whether prevailing unions/prevailing wages will be a requirement when both companies begin manufacturing their products. So a state entity will own and control the land, building, equipment, much capital and some labor. This is eerily similar to the failed practices of the former Soviet Union except that New York State will not own the operating entity. The first phase of the project will cost approximately $225 million in two buildings with these two tenants. It is estimated that there will be 850 permanent jobs created in the first phase or a cost of approximately $265,000 per permanent job. Of course the hope is that this will spur momentum within the same complex and spillover into the region's economy. There will be room for 4 other buildings on the approximately 88-acre site.

I bring this up to make the point that local, state and federal government is going on an all out blitz to bring back and grow the economy with public private partnerships, grants, tax abatement deals, low interest loans, tax credit programs, etc. I remember 10-15+/- years ago when the New York State Empire Zone program was at it's zenith. I asked the head of a state economic agency about the payback of the many giveaways the Empire Zone program had. He had no idea and stated that they were going to "throw a bunch of stuff against the wall and hopefully something was going to stick." There's a trade off to the local, state and federal governments which is losing revenue due to tax credits, grants, tax abatements, etc. As long as interest rates are low, it may be a healthier long term real estate market to reduce the artificial stimulants and let the natural market work. Government and the Federal Reserve can't do monetary and fiscal spending binges indefinitely without serious long term damage to the economy.

To summarize the major point of this article is ask the question; is it time to let the marketplace try to take the current momentum and develop without some of this government intervention? Prime examples of this are the intermediate and large cities in the Northeast. Larry Quinn who is the former vice chair of the Erie Canal Harbor Development Corp. in Buffalo agrees it may be time to let the market forces work especially because of the low interest rates. There is evidence that the momentum has created an atmosphere for development without these giveaways. This strategy will help government solvency and keep market demand/supply factors in a healthy way. We may be seeing the beginnings of a free market again in conjunction with government downsizing and lower universal taxes.

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