

Six Predictions for the New Year

Here's my good news-bad news forecast for 2012. The bad news is that the U. S. economy will continue to waver in the coming months. The flip side is the prospect of slow but steady growth, aided by narrowly focused fiscal policies and strong monetary actions of the Federal Reserve Bank. Here's what my crystal ball suggests will be the winning economic development strategies on a local and regional level.

Diversity is key. The communities and regions that will lead us out of the current slump into a faster growth path are those that create an effective demand for real estate. An example of such a community is Austin, Texas, which continues to buck national trends. Austin has developed a diverse economy that is supported by the presence of state government, the University of Texas, and a variety of medical institutions and high-tech companies that are attracted by the region's intellectual capital, educational opportunities, diverse job base, and high quality of life.

Collaboration and cooperation. Communities and regions that collaborate, compromise, and cooperate will be in the best position to convert their intellectual capital into job-creating and income-growing innovation and entrepreneurship. (The current lack of civility on the federal level is an example of what the lack of collaboration can lead to.) Collaborative communities will create effective land-use plans and regulations to facilitate development and redevelopment. And they will provide integrated land uses and transportation networks that foster regional entrepreneurial development. They will be in a strong position to attract, retain, and connect the talented labor that innovative firms depend on.

Cultivating social capital. The community's political and legal infrastructure and its culture of personal relationships—its social capital—are essential factors in economic development. In a world of freely moving physical and financial capital, only social capital remains tied to specific locations. As recent Euro Zone problems vividly demonstrate, differences in social capital (in the current case, between northern Europe and southern Europe) can lead to vast disparities in economic and fiscal performance.

Fix immigration policy. One winning strategy could be a shift in immigration policy. I would encourage the U.S. to review its policies to allow significant immigration of well-educated, highly skilled people with the ability and willingness to buy homes and help to create jobs. The model could be the Canadian point system, tailored to reflect unique U.S. priorities. A relaxed policy could have a significant impact on states such as Arizona, California, Florida, and Nevada, all of which are severely affected by the housing crisis—and are also desirable destinations for skilled immigrants.

“Doc in the box” and other approaches. No matter how federal health care reform evolves, we can be sure that a higher percentage of medical care will shift from traditional hospitals to local and regional medical clinics. That makes the “doc in the box” strategy a winner.

Another essential strategy is worker training. Both the public and private sectors need to encourage manufacturing and processing firms to provide prospective employees with the skills needed to compete in a globalized 21st century employment market.

Winning communities will be those that have a realistic understanding of their appeal to businesses and to visitors. They will base their land-use and economic development plans on that knowledge, recognizing that just because hotels and related facilities are built does not mean that “visitors will come.”

Finally, the most effective communities will understand the need for adaptive reuse and redevelopment of obsolete local real estate, particularly retail centers. They will recognize that in-store retailing is unlikely to return to its historic highs.

Wrapping up. Which cities will be most popular with real estate investors in 2012? Cities such as Boston, New York, San Francisco, San Diego, and Seattle have a promising future. These are cities with walkable downtowns, exceptional workforces, and strong industry clusters (software, biotech, financial activities). They are attractive to visitors and empty nesters alike, and they are likely to benefit from an influx of capital from real estate investors seeking a safe harbor in the coming year.



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