

John Adams on the side of commercial real estate

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The commercial real estate industry continues to be threatened with a downturn while our capital markets seek a path to "normalcy": bond markets are stuck while existing transactions get washed through the system; capital sources are busy trading existing deals at discounts to redistribute portfolios from weak balance sheets to strong ones; and new development is at a standstill for all but the most liquid developers.

In the meantime, the Fed rushed taxpayer dollars to bailout Bear Sterns and the debate continues over the need for increased regulation of the real estate lending industry and the Fed's role in managing our economy. The outcome of this debate has important and lasting impacts for commercial real estate participants.

In the latest example of life imitating art, this debate smolders while the country watches HBO's *John Adams* miniseries and is given an opportunity to revisit the events and ideas that led to the founding of our nation.

I'll admit I'm a big fan of John Adams (and a bigger fan of the true brains behind the operation - Abigail Adams). As a big city lawyer and champion of "urban" economic issues, a 21st century John Adams would no doubt be a preferred equity partner in a number of commercial real estate development projects today. I can't help but wonder

how he would respond to the current legislative initiatives.

(The Scene: President Adams, appearing before Representative Barney Frank's House Financial Services Committee, with Abigail at his side)

Mr. Frank: "Mr. President, we have found the current crisis in the home mortgage market to be driven largely by greed and seek your support in our proposal to increase regulatory oversight of our financial system, including an increased role for the Federal Reserve."

President Adams: "No doubt, Sir, the committee is correct in its assessment that greed has been a primary factor in the current crisis affecting home mortgages. Greed on the part of lenders, greed on the part of mortgage brokers, greed on the part of bond purchasers, greed on the part of rating agencies, and greed on the part of borrowers who aspire to home ownership without so much as a single bead of sweat in the down payment. However, sir, I could not endorse a plan that would prevent

any homeowner, no matter how foolhardy, from making his bargain in a free market. The role of government,



when it comes to economic interests, is not to protect our citizens from foolishness. For one man's foolishness is another's speculation. The history of our own Massachusetts Bay Colony begins with what might have been considered a fool's investment by desperate people seeking any means possible to make a better life for themselves. Do we really want to prevent people of like mind, no matter how foolhardy they may be judged by conventional wisdom, from seeking similar speculative endeavors?"

Mr. Frank: "Well, Mr. President, I'm sure your fellow citizens of Massachusetts would disagree with you. We've evolved to the point

where our good citizens have come to rely on our government for their every need, including an economic bailout when they are forced into taking on debt by greedy lenders."

"No doubt, Sir, the committee is correct in its assessment that greed has been a primary factor in the current crisis affecting home mortgages."

- PRESIDENT JOHN ADAMS



President Adams: “I might disagree with you on whether to characterize such bailout expectations as ‘evolution’, Mr. Frank.”

Mr. Frank: “Nonetheless, you would agree, that regardless of your views on regulation, the role of the Central Bank in monitoring and controlling our economy must be increased. After all, the Fed has successfully controlled inflation for the past 20 years, enabling a period of sustained economic growth in this country and throughout the world. It would seem to make sense that a stronger and more broadly based role for the Fed in managing our economy would be in order.”

President Adams: “I cannot support the concentration of so much power over our economic affairs in the hands of any one institution, even if in the hands of a fine Harvard man like Ben Bernanke. The interests of the Federal Government in regulating our affairs must be balanced by an equally strong component of checks and balances designed to insure individual liberty.”

Mr. Frank: “But Mr. President, surely the best course to pursue for the benefit of all our citizens is to provide an increase in regulation and a strong Central Bank that will be an active participant in the markets, protecting our economy from the evils of big business and insuring that our economic growth proceed along a slow and steady path forward.”

President Adams consults with Abigail.

President Adams: “Esteemed members of the Committee, please recall our country was founded by protest against a series of intolerable regulations imposed by a strong central authority dictating the economic affairs of its citizens. Regardless of the prudence of those policies, the fact remains that we desire to be free of overbearing economic regulation, free of tyranny and free to pursue our livelihoods in ways best suited to our own desires and in our own judgment, no matter how fallible that judgment may be. I am quite certain that the citizens of these United States did not throw off the yoke of an English monarch to put on a yoke fashioned by Congress and the Central Bank! Good day sir.”

And with that, President and Mrs. Adams exit the hearing room.

Way to go, Abigail!