



Greenfield Advisors LLC

The Greenfield Advisor

Issue 4-3, May, 2008

Of Rice.... And Oil... And Real Estate

Unless you were in a cave the past couple of months, you noticed that the price of rice has soared. Americans and Europeans, with our relatively diverse diets, may not recognize the global implications. The industrial revolution in Asia during the last half of the 20th Century came in no small part on as a result of an agricultural revolution in mid-century. Thanks to major improvements in agricultural technology, rice yields soared and rice prices dropped. Thanks to the easy availability of this diet staple, Asian economies were able to feed a rapidly growing industrial workforce with fewer people devoted to farming.

The real estate tie-in? As rice yields improved dramatically, nations were able to devote less space to rice and other farming. In just the past decade, for example, China has decreased its agriculture land by about 10%, with most of this shifted to housing and industry. For many newly-industrialized Asian economies, this is a zero-sum game – they simply do not have any excess land. Ever acre shifted to industry means one less acre of farmland. (For example, China now must import nearly all of its timber – they have simply run out of timber land.)

I'm not a Malthusian – I firmly believe that the agriculture researchers in the world are capable of finding ways to farm less and less land in order to feed more and more people. The shifts in agriculture here in the U.S. in the past 100 years bear witness to this. However, the current disruption in rice prices and potentially in availability is hitting Asian economies the same way the sub-prime melt-down has hit the U.S. economy. Rice prices can be a real shock to the system in those nations, and while this will probably be a short-lived crisis, the world will probably have to live with slightly more expensive foodstuffs. That's not a function of lack of arable land, it's simply a function of rapidly increasing demand.

Which brings us to oil, priced at about \$122 a barrel as I write this. Oil and rice prices are doing about the same thing for identically the same reasons. Oil and rice are in huge demand in emerging economies, and while the absolute amount of oil used by, say, Indonesia, is far below levels used in the U.S., the marginal change in demand in Indonesia, India, China, and such places is far above the U.S. and Europe, and that's what's roiling the oil markets.

As real estate usage continues to change from agriculture to industry in these nations, the change in demand for oil and food will continue to put pressure on world prices. Hence, real estate usage changes is, in essence, a leading indicator for oil and food price changes.

American Real Estate Society Meetings

I had the pleasure of attending the 2008 annual meetings of the American Real Estate Society, held in Florida in April. (For the record, I will use any excuse to go from Seattle to Florida during the October/April period.) ARES is one of the two leading academic real estate organizations in America, and is made up roughly 50-50 of real estate faculty and private sector researchers. The annual meetings are an opportunity for scholars to share ideas, present papers and work-in-progress for critique by their peers, interview prospective new Ph.D.'s, and conduct the business of the organization. ARES publishes several of the top real estate journals, as well as important monographs. Much – if not most -- of the seminal work in real estate analysis, valuation, management, investment, brokerage, and development comes from ARES scholars. Here at Greenfield, we've had the pleasure of publishing in most of the ARES journals over the years and presenting numerous papers at their annual meetings.

To remove your name from our mailing list, please [click here](#).

Questions or comments? E-mail us at info@greenfieldadvisors.com or call Greenfield Advisors at 800-755-0966 and ask for *Client Services*.

Greenfield had three papers accepted at ARES:

“Valuing Historic Preservation Easements in Regulated Historic Districts – An Empirical Study” (co-authored by Dr. Max Kummerow and me) – This paper is currently under review at a major journal, and we hope to see it published very soon. It has two “sister” papers, one on methodology (also under review at a different journal) and one focused on estate planning and wealth management (co-authored by Victoria Adams and me) which was just published this month in the Journal of Wealth Management.

“Liquidation Value: the Valuation of Real Estate in Financial Distress” – This paper came out of a major bankruptcy case on which we consulted last year. We recognized that while Bankruptcy Courts request a “liquidation value” for commercial real estate (and other assets) in reorganizations, there is little in the way of either theoretical or empirical guidance for the valuation community. Ironically, the genesis of this paper came well before the current sub-prime meltdown. Naturally, given the events of the past few months, this presentation garnered significant interests at the conference.

“Residential Real Estate Pricing Disequilibrium” – We’ve known for some time that residential real estate markets do not automatically adjust to negative news. Indeed, my 2006 paper in the Journal of Housing Research showed that house prices can take a couple of years to return to equilibrium following a contamination announcement. Again, the genesis of this paper was well before the current “bubble-bursting”, and while it was focused primarily on contamination events or natural disasters (e.g. – our experience in New Orleans post-Katrina), it was obvious from the follow-up questions that there was significant interest from the investment community. We’ll see where this goes...

I also had the pleasure of sitting on one of several panels focused on Real Estate Education. My panel was devoted to masters-level programs in the field, with all of the other panelists representing several of the better programs in the U.S. My contribution was to suggest the “skill set” that we look for in new hires at that level here at Greenfield, and from that to suggest the skill-set that industry probably wants in these masters-level graduates. High on my list was:

- Analytical (problem solving) skills
- Communications – both written and oral
- Ability to keep track of the big picture and how various components contribute to the whole
- Process and project management skills
- An innate curiosity and the ability to be proactive in researching a problem

ARES was – and usually is – a great opportunity for us keep our intellectual roots in academia. We look forward to next year’s meetings schedule for Monterey, California. By the way, the 2011 meetings will be here in Seattle, so not only does Greenfield get to help host, but I also have to find some other excuse to go to Florida that month.

I thought he was already retired?

Greenfield hosted a “semi-retirement” luncheon for Dr. Bill Mundy on April 30th. We say “semi-retired”, because he left the luncheon to get on an airplane and fly to Texas to testify in a bankruptcy case! At any rate, it was a great opportunity to hear from many of Bill’s friends, professional colleagues, and former clients about his contributions to our profession over the years. Following the luncheon, the main conference room here at Greenfield was re-named the “Bill Mundy Conference Room” and features a display honoring his contributions to the real estate literature.

John A. Kilpatrick, Ph.D., MRICS