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A Proposed Strategy for a Portfolio of Land Investments in the Path of Urban Employer Emigration

by
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Real Estate Capital Gain Strategies

Real estate investment is motivated by current cash income and anticipated future capital appreciation. Sources of real capital gain, as opposed to price increases that reflect inflationary devaluation, are as follows: (1) an increase in effective price levels because of falling interest rates and refinancing potential; (2) resale premium by arbitraging financial costs and interim tax benefits through deal structuring; (3) improved income by converting contract rents to significantly higher market rents; (4) improved income through asset enhancement and intensive management that permit higher resale prices; and (5) a significant rise in land value because of shifting locational preferences and pressure for more intensive use.

Given today's economy, those seeking real capital gain can have little expectation of any significant fall in interest rates, of structuring to improve leverage except for deals big enough to attract foreign capital, or of improved rent structures in the face of chronic overbuilding. Aside from externalities such as interest rates, the income tax law and currency devaluation, capital gain depends on the old-fashioned way of earning appreciation: by good property management over the long term. Therefore, what impetus for capital appreciation remains likely as the result of the volatility of external forces?

There are several basic land investment approaches, such as "buy by the ranch, sell by the acre," or "infilling" — that is converting bypassed golf courses, race tracks and estates to higher densities with a master plan for mixed uses. However, the most significant passive play for capital gain is to anticipate the migration of employment or residential clusters and to purchase land in the path of that migration. Rural predevelopment land values provide the possibility of significant financial leverage through creative conversion to high-density urban land uses. Furthermore, land investments in collar counties have the potential of hedging office building investments in the central core if employment shifts, even by a small degree, out of the city.

Large-scale land purchase is emerging from the category of wildcat speculation toward legitimacy as an institutional investment. According to Laventhol and Horwath, national land syndicators have grown from three companies in the summer of 1985 to 36 a year later and to 57 by the second quarter of 1987. One company, the Heartland Group, Inc., has established 100 limited partnerships in raw land over the past eight years with more than $150 million invested. A Real Estate Research Corporation (RERC) study analyzes relative risk and return for seven master-planned communities of 12,000 acres or more.[1] These communities are located primarily in the Southwest, where land can be bought by the ranch instead of by the acre. RERC concludes that the risks are not as significant as many people believe if land purchases are made in a systematic fashion and predevelopment efforts are aggressive. Rates of return on land investment can exceed those on other investment property by a significant margin; thus, units in a land investment venture could be suitable for institutional portfolios seeking both diversification and participation in regional growth. However, a land play in a syndication financing a large-scale master-planned community is not for the typical real estate investor and certainly bypasses large parts of the United States where land ownership is more fragmented.

[1] See *Investment Analysis of Large-Scale Land Development*, Jacque Gordon and Janet Nutting, Real Estate Report, Volume 16, Real Estate Research Corporation, 2Q 1987.

A land investment strategy is needed for the selection of land parcels of 1,000 acres or less in townships and counties where a small master-planned project can exploit migration into the rural hinterland from metropolitan centers. Strategically located smaller land parcels, systematically selected, could provide a diversified portfolio of land parcels for speculation located in multiple counties without the need to rely on the large-scale, but limited, land investments found in the Southwest.

A Search for Demographic Indicators of Migration

An investment strategy based on migration and demographic trends in the United States is often frustrated by the population's freedom of movement. Because of the ten-year interval in census patterns, computer-processed census data can be insensitive to changes in trends, given the dynamic and opportunistic counterregional movements. Broad studies of migration patterns among regions and between individual states have been done, and some intrastate studies exist, but they do not explain the more subtle population shifts that are in process.[2]

Some commercial census data services project demographic patterns by extrapolating from current Federal, state and local sources. These sources include special census data collected since the 1980 census, general revenue-sharing estimates for counties and local (subcounty) areas, U.S. Postal Service delivery statistics for five-digit zip codes, state car registrations, and local telephone listings. Each, however, has a degree of bias depending upon which forecasting method is used.

Recently, two studies have appeared that translate statistical demographics into investment and political implications for the nonacademic audience. Both build on similar observations from the 1980 census. *The New Heartland*, by *New York Times* reporter John Herbers, observes and interprets the population migration and dispersal beyond the outer range of suburbia.[3] It discusses the movement of corporate jobs to the suburbs and the relocation of employees to affordable housing beyond established suburban areas. The author comments on growth and decline in cities and suburbs and the impact this pattern of movement could have on all levels of politics and life-styles. While *The New Heartland* is a good point of departure for the real estate strategist, a second book has attempted to provide a mechanism for selecting targets of opportunity for real estate investment. *Regions of Opportunity*, by Dr. Jack Lessinger, a retired real estate professor, is much more quantitative and aggressive in its judgments.[4]

In *Regions of Opportunity*, computer-processed demographic data are used to determine the mean change in population per county and the number of standard deviations relative to the mean change in population of all counties. Lessinger concludes that these population changes are driven by changing social and economic environments. Migration creates areas of obsolescence, as well as regions of opportunity, and local economies are perishable when a consensus about life-style and purpose breaks down. He advances the proposition: "Every economy perishes as a result of a unique problem it cannot solve. Its successor is governed by a unique consensus able to solve that problem."[5]

Lessinger first tracks four major cycles of U.S. growth and decline in demographic terms. His unit of time is a decade, and census data is his major source of information. He calls the fifth cycle, now beginning, *penturbia*. To quote Lessinger further:

[2] See *Changing Patterns of Interregional and Interstate Migration in the United States: 1970-1985*, George S. Masnick, Working Paper W86-4, Joint Center for Housing Studies of MIT and Harvard University, 1986.

[3] See *The New Heartland*, John Herbers, Times Books, 1986.

[4] See *Regions of Opportunity: A Bold New Strategy for Real Estate Investment With Forecasts for the Year 2010*, Jack Lessinger, Times Books, 1986.

[5] See *Regions of Opportunity*, page 54.

"Before a consensus is repudiated, however, its failure is announced by the appearance of many and formidable excesses. Exceeding limits imposed by the law of diminishing returns, further 'improvements' — relentlessly pursued by an economy in the grip of a fixed consensus — no longer improve anything. They become destructive, create serious imbalances. Too many migrants enter the region of opportunity; its real estate is overpriced. Expansion of the favored industries is constrained by increasing scarcities. Favored life-styles become both unaffordable and less satisfying. Government begins to frustrate other sectors of the economy. Intransigent idealists whose ideals have gone bankrupt helplessly tear apart the house they labored so long to build." [6]

Does this sound like New York, New Jersey or Southern California? The cover story of *USA Today*, July 16, 1987, reported the quiet migration of major firms from New York City for the following reasons: (1) land costs make office space astronomically expensive; (2) technology allows back-office jobs to be located elsewhere; (3) business taxes are too high; and (4) housing costs too much, even in nearby suburbs. It is interesting that the newspaper left the cost and fear of crime, congestion and a Gresham's Law of social separation off the above list.

Mayor Jack Harnard of Plano, Texas, a competitor of New York City, states more explicitly that JC Penney & Company, Inc. is relocating from New York to Plano because, "They can live in a city that has a very low crime rate, very good public schools, and the cost of housing is substantially less." It remains to be seen if JC Penney's management personnel agree to a point where 50% will relocate.

In that context, consider further the Lessinger hypothesis:

"Each economy develops its own characteristic form of excess. If an economy's consensus seeks centralization, it becomes overcentralized; if it seeks decentralization, it becomes overdecentralized; if it is production oriented, it overproduces; if consumption oriented, it overconsumes.

Because no perishable economy is able to end its own excesses there is only one possible outcome: The old economy — all of it as a total system — will become obsolete.

To restore order, a new economy is born. It aggressively challenges the runaway excesses and therefore opposes the consensus that spawned them. Thus begins a whole new cycle... Pressures from long accumulating and steadily worsening problems are eventually resolved by great structural movements. In the crush of change, we alter ***who we are*** *as a people,* ***what we hope for, how we live,*** *and, of special importance to the forecaster of migrations,* ***where we live.****"* [7]

Excesses can include the direct and indirect costs of too much crime, too much congestion, declining educational skills of the resident labor force despite rising educational costs, and the excess costs of both Government and cultural work habits.

Lessinger's statistics identify, by county, seven classes of decline and growth with the result that 100 rural counties and small town centers show the best growth rates among all of the counties in the United States. He hypothesizes that there is a growing rejection of overconsumption in favor of a more simple, saving life by a group he designates the Caring Conservers. In our home state of Wisconsin, the fastest-growing counties are rural, and the migrants are generally people from major metropolitan areas seeking early retirement or people with portable professionals such as doctors, accountants and craftsmen seeking self-employment and a more desirable

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[6] See *Regions of Opportunity*, page 55.

[7] See *Regions of Opportunity*, pages 55-56.

life-style. Of interest to real estate investors is the reality that the population growth can be tracked after the fact by using the computer to process census data by county and by other sources such as the *1983 County and City Data Book*. However, these historical data lag the migration and do not suggest from where and to what degree more migratory pressure may be coming.

Migration of qualified employees eventually triggers migration of employers, and that shift is the lead indication of new commercial centers in previously undeveloped areas.

The County as the Perimeter of Land Investment Search

The county civil division provides the best type of spatial unit for a national investment strategy, because so many data bases can be aggregated or disaggregated to a county unit. Discussion with the U.S. Bureau of the Census revealed that the following units do not cross county lines: (1) census blocks; (2) census tracts; (3) minor civil divisions; (4) census county divisions; and (5) enumeration districts. These five subcounty components are the building blocks with which subcounty geographic areas could be aggregated to the county level. Although data organized by zip codes are available, analysts must be cautioned that zip code areas frequently cross county boundaries.

The important point to be made is that subcounty data could be maintained and aggregated to the county and, ultimately, the regional level, but it may be difficult because there is no uniform subcounty building block that aggregates to the county level. In most instances, combinations of subcounty building blocks must be used to aggregate data to the county level.

An unpublished study by the University of Wisconsin Real Estate Department for the National Council of Real Estate Investment Fiduciaries further indicates there is a dramatic supply of computer tape data available from the U.S. Bureau of Census, the U.S. Bureau of Economic Analysis, the Federal Reserve Bank, and the Federal Home Loan Bank Board, all of which can be disaggregated to the county level. Therefore, the county is a logical building block unit for real estate opportunity searches, as suggested in Figure 1.

Figure 1. Real Estate Data Base Systems — Compatible Inter-Data Base Geographic Components

Organizational Data Base	Regional Aggregation Unit	Building Block Component
Primary		
Institute of Real Estate Managers	HUD Regions	County
Building Owners & Managers Association International	Arbitrary Aggregation of States	County
Urban Land Institute	Federal Reserve Districts	County
Shopping Center World	Arbitrary Aggregation of States	County
Laventhal and Horwath	Census Region	County
Pannell Kerr Forster	Census Region	County
Secondary		
National Association of Realtors	Census Region	County
Society of Industrial & Office Realtors	Census Region	County

HUD Department of Housing and Urban Development
Source: University of Wisconsin-Madison, School of Business, Real Estate Department

Major real estate investment portfolios are pushing hard to build an economic data base by county as a fundamental tool for portfolio diversification analysis and positioning of investment property purchases in the future. Selection of counties with the best potential for appreciation of predevelopment land values is only one by-product of these new data base overlays. Moreover, predevelopment land in collar counties could be a significant hedge on reverse commuting at the expense of commercial real estate located in a central county that is experiencing uncomfortable increases in its social stress statistics.

County Data Reflecting Excess Stress

What kind of county data would suggest that a local economy is reaching an unsolved problem that would promote employers to relocate? Would employers find it expedient to reduce costs and improve productivity by moving and recruiting with a competitive edge in terms of job location and, if so, when? The middle class has already migrated to the suburbs, and beyond, to avoid the crime, the declining quality of public education, the congestion, and the high public cost of maintaining infrastructure and services for the underemployed of our major cities. U.S. industry has already dispersed across the landscape to a point that the first tier of counties accessible to the urban core county are congested, expensive and economically segregated. How will major service employers in core areas find educated staff if the school systems there are declining and the changing value systems of the middle class include questioning the need to commute? How will high-profile corporations react when asked to finance a patchwork of cures for the problems in the urban center? The American response, with a few happy exceptions, has always been to "move the teepee, rather than clean up the campsite."

As suggested by the earlier references in *USA Today*, cities such as New York and Boston are under heavy price competition in terms of office rents, special taxes and housing costs, not to mention perceptions of an unattractive life-style created by congestion, poor schools and street crime. Professor George Sternlieb describes the old first-tier cities as a small core of gentrification surrounded by a desolate expanse of shelter for the transfer-payment population. As yet, these perceptions do not represent a consensus as anticipated by Lessinger, and the amenities of these cities still draw the middle class.

At some point, the disparity or spread between negative statistics in first-tier cities and counties and the positive statistics of fourth- and fifth-tier cities and counties, as highlighted by Lessinger, will bring about a release of energy in the form of employer migration. This theory of migration of successor economies escaping from unsolvable problems has great implications for both portfolio-holding and buying policies. Although pension funds do cull both their mistakes and their properties with inadequate return, the majority of asset managers still view first-tier city properties as likely investments for 20 years or more with only occasional refurbishment and repositioning. They justify purchase for lower yields, because the market is considered broad enough to provide immediate liquidity. At the same time, the asset manager presumes stable or increasing values over the long term as a result of tenant diversity and the depth of the economic base; thus, it would be unnecessary to sell the property that had been ostensibly purchased for liquidity.

And yet, a slight loss to the economic base of a community would reduce both return and liquidity. For example, the October 1987 stock market collapse and the subsequent layoffs of nearly 25,000 workers at New York securities firms may cost Manhattan $400 million in retail sales, according to Wharton Econometric Forecasting Associates.

From Lessinger's analysis, it appears that fourth-tier counties consistently outperform first-tier cities in terms of rates of appreciation. Because asset managers prefer large lump investments to hold down acquisition costs per dollar of investment and the opportunities for large land investments, as in the Southwest, are limited, the question remains as to the total dollar level of land investment opportunity available and the average dollar value per transaction that should be invested in undeveloped counties.

The Search for Counties With Unsolvable Problem Statistics

At some point, congestion, crime, corrosion of the education system, and the cost of public budgets attempting to deal with both social problems and depleted urban infrastructures will cause corporate employers to migrate, in whole or in part, to rural counties. Enterprises that have some latitude in choosing their location will migrate to improve the quality of life and to reduce the net cost of operations for both the employer and the employee. A prototype of this migration is the relocation of check processing by Citibank from New York to North Dakota.

Only a few enterprises need to choose to leave New York City for the hinterland of the United States to have a high impact on rural county values, as well as diminishing prospects for rent increases in New York. While Trans World Airlines has shifted to Mt. Kisco, New York, to disrupt fewer employees, and JC Penney has jumped to Plano, Texas, to change corporate culture, it is doubtful that Mobil Corporation will avoid the consequences of congestion and high housing costs by moving to Fairfax, Virginia, where congestion and the cost of growth on Government is already generating strong antigrowth sentiment and exactions on new projects.

The greatest growth in downtown employment has been in all types of information services; thus, until the most recent glut of overbuilding, there has been constant pressure upon commercial rents and, therefore, upon capital value appreciation. But ranking investment potential by ranking metropolitan growth must be used with caution as a basis for long-term investment if that growth represents the last surge of excess envisioned by Lessinger.[8]

However, the quality of life for those commuting from residential counties to downtown cores gradually becomes suspect, as the cost of housing in the first tier of residential counties soars under constraints of growth management and overcrowding. At the same time, congestion on the transportation system makes the commute into the downtown core more disagreeable and sometimes threatening, as it pushes through urban ghettos.

Since the first tier of rural counties is already overbuilt and underserviced, the corporate employer will have to relocate to a third-tier county with access to the existing close-in residential counties where its employees currently live.

Third-tier counties provide the corporation with lower-cost company facilities and housing for their future staff. Other employees and executives can commute out to the new headquarters, rather than commute in to the congested core. The concept of the reverse commute is already well established with those involved in planning corporate facilities. Plano, Texas, is an example of proximity to "big city" amenities in Dallas with sufficient detachment so that smaller-scale prices and traffic systems and heartland education systems still prevail.

[8] See *Ranking Metropolitan Growth: A Real Estate Tool To Be Used With Caution*, Robert E. Hopkins and David Shulman, Salomon Brothers Inc, June 1987.

This example suggests a search for counties with access to urban centers just outside the ring of current suburban expansion. It also suggests that communities recognized for their high quality of life could market to office users in cities with the worst negative statistics, rather than assume economic growth depends on new manufacturing or research facilities. For example, San Antonio, Texas, or Madison, Wisconsin, with their strong traditions in medical research, should be actively recruiting the National Cancer Society, which has indicated that it is leaving New York City.

To trace the potential spread between the best- and the worst-cost environments, the cost of Government, basic wages and the cost implied by congestion are available by county, in proxy form at least. Quality of life is a more elusive attribute to represent by statistics, but a number of researchers are attacking the problem with innovative indexes.[9]

Although Lessinger searched through all of the counties of the United States, perhaps the investment ploy could be focused on situations combining the following subsets of counties: (1) a core county with negative indicators of employment quality; (2) a ring of suburban counties where housing prices and congestion indexes have risen most quickly; and (3) a third-tier of outer-ring counties for which monitoring statistics indicate low density or nondevelopment. In that case, the negative load in the core, or first-tier, county will ultimately discharge into third-tier counties, at the very least, if not changing locale from east to west or north to south altogether. After the selection of third-tier counties, the search for specific acreage is focused on existing commuting conduits to existing second-tier bedroom counties that house the employees commuting to high-stress commercial cores.

Sources for Stress Statistics for Core Counties

Major employers today try to locate facilities where the local culture is supportive of work skills, work ethics and social stability. Stress statistics anticipate where the social culture is no longer supportive of productive employment and, therefore, is a cause of employer migration. A major effort to focus and refine statistics that serve as a proxy for stress will provide a lead indicator of future urban decay as a counterpoint to short-term statistics of employment, growth or construction.

Stress data are measures of the rate of crime per thousand of population, dollars spent per capita for crime prevention, real estate taxes per capita, proportion of tax revenues spent on social welfare programs, national ranking and trends of high school Scholastic Aptitude Test (SAT) scores, average expenditure on education per child, and traffic congestion.

Many core areas require a significant increase in expenditures for the replacement of aging infrastructure and upgrading of sewer, water and pollution-control systems. These costs are financed by general obligation bonds and by rising real estate taxes that may be slanted toward commercial property with discriminatory equalization ratios. This type of data can be assembled from state or county offices.

Many statistics on the traits of individual counties already exist on computer tape, at least through 1982, and Lessinger has attempted to score these data to provide some insight into the character of each county. However, it is useful to collect different data for different types of counties. Stress data from major city and county cores would emphasize the pressures

[9] See "Building Knowledge About Quality of Life For Urban Planning," Dowell Myers, *Journal of American Planning Association*, Spring 1988.

for out-migration. Statistics on excess prices and congestion in suburban counties would identify and, therefore, eliminate counties already affected by outmigration. Development data on third-tier counties might identify a lower-cost destination for employers migrating from core and suburban counties.

The cost of a data base to support the search for counties facing decline or growth will be greatly increased by the fact that raw data from various sources must be modified to permit comparison, to focus on specific population cohorts or to link national statistics to local attributes. For example, the Federal Government publication, *The Census of Governments*, reports on expenditures for education, social services, public safety, Government housing, and other categories. These data must first be adjusted to a common denominator of dollars, using a gross national product deflator, and then further refined in terms of total population or a selected cohort such as the number of persons under 18 years of age or households with income less than a specific dollar amount to indicate a poverty level.

Politically sensitive data are not always collected in a useful form. For example, *The Digest of Education Statistics*, an annual report from the Office of Educational and Research Improvement, of the U.S. Department of Education's Center for Statistics, has been collecting budgets, student-quality indexes and test scores by school district in an inconsistent fashion, preventing an aggregation or analysis of trends. A proper data base would have to seek cooperation of each school district in each county for SAT scores data. The Federal program may become a better source as more attention is put on our educational system.

The cost of education per child would become more meaningful in indicating the degree of stress when correlated to annual average county scores on SAT examinations. However, national sources will refer the researcher to each school district in the county to obtain the scores, because SAT scores can be sensitive information, particularly in cases where the average score is declining while the amount spent on education is increasing.

Ironically, it is not the social delamination of our society in core cities and counties that is the primary concern of employers, but rather the growing levels of congestion caused by the well-to-do who avoid using public transit and by those who oppose land-use plans that would permit public transit or the efficient use of their automobile and energy.[10] These upper-class attitudes are bringing about referendums in core and suburban counties that will limit any further development unless the developers do the following: (1) pay for increased road and intersection capacity;[11] (2) limit densities of development to existing transit capacities; or (3) subsidize housing, day care and other services adjacent to employment centers. County data on political referendums would monitor the Lessinger process of excess cost, frustrated public policies and the breakdown of consensus on the good life that precede significant migration.

Not all relevant data are on a county basis; data also may be organized by a Metropolitan Statistical Area or a planning zone that could serve as a proxy for a county. For example, the Federal Highway Department requires each state highway department to monitor vehicle counts at the

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[10] See "Traffic Congestion and Growth Limitation Policies in the Nation's Largest Metropolitan Areas," Dr. Anthony Downs, a speech presented to the Greater Washington Research Center, Washington, D.C., June 3, 1987.

[11] See "Southern California Traffic Jams New Development: No Growth Initiative to Hit Hard," Jane Haas, *U.S. Real Estate Week*, Volume 1, Number 31, September 28, 1987.

intersections of major arteries in selected traffic planning areas and report an annual ratio of vehicle counts to capacity ratio. For Wisconsin, these ratios are available in 20 urbanized areas, and the data go back to 1978. Traffic data may not exactly match county lines when aggregated. Once a county that might be the eventual beneficiary of employer migration was identified, similar data could be collected and processed if it were outside the zones currently monitored.

The statistics of stress not only suggest the potency of irritants to force out-migration, but they also identify the critical arguments the fourth- and fifth-tier communities such as Plano, Texas, can use to market the distinct advantages of its underdeveloped county to core city or suburban county employers.

Sources for Measures of Excess for Suburban Counties

Lessinger suggests that a rejection of excess consumption, for ethical reasons, may explain a return to the rural county, but it may be more realistic to assume that a rejection of excess costs and stress may occur for the practical reason that the employer or the household can no longer afford them. Statistics on excess expenditures include county business patterns, the cost of Government services and the cost of single-family lots and new and used homes. There are private sources, such as the National Association of Realtors, private mortgage insurers and marketing research firms, that maintain time series data on comparative costs of lots, homes and rent levels in selected counties.

At least one firm, The Runzheimer Group of Burlington, Wisconsin, provides a national service for corporations comparing various elements in the cost of living by subregions, but not by county. The company's services enable businesses to compare salary adjustments required for the transfer of employees or to select lower-cost environments in which to locate an employment center. Some private data center firms have added the presence of shopping centers and commercial office nodes to their spatial demographic data services, so that the square footage of these developments relative to dollar of purchasing power, adult demographics and congestion data can become a proxy for the suburban county saturated by excesses. The monitoring of major political referendums and local campaign issues about the local government budget, growth control and exactions on development will also identify counties of excess.

Sources for Positive Statistics on Third-Tier Counties

Certainly, Lessinger has demonstrated the possibility of sorting counties by various statistical measures that may, with interpretation, identify subsets of counties with the best prospects for high quality of life in contrast to counties of excess. However, these counties are randomly scattered across the country in the Lessinger analysis. To provide a more systematized process, selection screens can be devised by searching for specific standard industrial classification code location quotients in terms of employment, distribution break points, shopping center nuclei, and road and rail corridors with interchange points. Comprehensive aerial photography and geocoded physical attributes, ownership patterns, transportation patterns, and other spatial data permit systematic and rational computer searches for specific tracts with the highest probability of benefiting from new development motivated by out-migration of employers from core cities and counties of excess. The capacity for tract search, comparative analysis and selection already exists by using air photographs, soil maps and other related physical data that have already been digitized for computer-graphic analysis.

Recommendations for a Data Base With a County Module

The concept of selective investment in development parcels in advance of metropolitan expansion by studying and mapping infrastructure, geography and people preferences so as to be in the path of channeled demand is an old idea. This has generated tremendous returns for many people in Southern California and other areas of significant migration. Techniques used locally and regionally by a few speculators could be expanded to a national level. The migration necessary to create demand for these land positions will come from some fraction of corporate employers migrating out of traditional office locations in core cities and counties of excess. An institutional tax-exempt fund could have the promise of significant capital gain by choosing a diversified portfolio of sites in counties, primarily east of the Mississippi River, where employers may try to avoid the cost and stress necessary to rebuild core cities into balanced social communities with operational infrastructure. The data base necessary to select these investments and to time the appropriate value-adding predevelopment efforts would require more diversified, focused or creative proxies of data to make the Lessinger hypothesis of targets of opportunity in rural counties an operational strategy for institutional investors.

With judicious predevelopment planning, the rate of appreciation on selected vacant land tracts can produce a risk/payoff matrix in the five- to 15-year time horizon of pension investments that exceeds real rates of return for existing income property investments. At the very least, stress statistics may suggest timing the sale of core facilities over a shorter holding period than conventional thinking generally assigns to large core commercial properties. By avoiding capital losses on core property located in a high-stress area, the investor protects net capital gain from growth-area investments. Asset managers of real estate equity are fiduciaries who must become more sophisticated in terms of diversification and their ability to forecast growth and decline for each county in which investments are located.

Private census data services need to market a broader array of data services than those that represent transformations of census tapes. The county as a measure of economic context for real estate opportunities is an idea whose time has come.

Predevelopment Land Funds

The greatest capital gain from systematic externalities is the result of participation in local economic development. That development is often induced by the promotional efforts of those with a prior position in land. Development entitlements and sensitive promotion require intensive local management with commercial development experience. As Anthony Downs has pointed out, the real estate product at the local level now requires capital financing at the regional, national or international level.[12] Because local nonsystematic risks dictate wide-ranging geographic diversification, large capital pools are required to finance a team that can systematically and aggressively convert predevelopment land to clusters of new development that are master planned in relationship to employer migration. Institutional investors will be seeking participation in regional economic development corporation land banks or special situation land investment funds diversified across national or regional economic zones.

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[12] See *A Geographically Split Personality of Real Estate Activities*, Anthony Downs, Salomon Brothers Inc, February 18, 1988.

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