

By Daniel Lazare

NEW YORK

THE NORTHEAST HAS CAUGHT A WHIFF OF the Texas disease. Since around the October 1987 stock-market crash, real estate in the Boston-New York axis has shifted dramatically into reverse.

Following five years of virtual gold rush, housing prices have fallen 20 percent or more, unsold condos are piling up like grain in Midwestern silos and consumer spending is turning stagnant. The staid old Bank of Boston, which once looked down its nose at Texas lenders for giving money to fly-by-night wildcatters, has had to write off \$720 million in bad loans, mostly to fly-by-night condo developers and other builders. Stamford, Conn., a boom town for corporate offices in the early '80s, is now stuck with a

HOUSING

Houston-sized vacancy rate of 30 percent, while, in Long Island, the town of Rockville Centre is trying to prevent panic selling by charging homeowners a \$60 fee for every for-sale sign they put up.

In Manhattan, the mood is particularly glum. Instead of tales of cooperative apartments going from \$25,000 to \$1 million-plus in 20 years or less, the talk these days at middle-class gatherings is of co-ops that refuse to sell, entire buildings sliding into bankruptcy and newly elected Mayor David Dinkins's tax troubles, both the city's and his own. The *New York Times*, usually the last to notice such things, has begun running worried articles about co-op defaults, while *Barron's*, the Dow-Jones financial weekly, has turned positively mournful.

"The recession in real estate has ominous implications," a *Barron's* headline announced in mid-December, whereupon the stock market signaled its agreement the next day by plunging 50 points.

Indebted to the '80s: Indeed, the decline is ominous, both regionally and nationally, financially and politically. First, it is evidence that the Northeast can no longer expect to prosper as it did in the '80s by buying, selling and multiplying the national debt. Second, it indicates that the doomsayers who predicted financial meltdown due to junk bonds or a Third World debt moratorium (this writer among them) may have looked too far afield. The real fault line might actually run through America's collective backyard in the form of \$2.3 trillion in increasingly ill-secured mortgage debt.

Third, residential real estate is not simply a market but the prime focus of U.S. social policy since long before the New Deal. Thanks to a range of federal subsidies from the home-mortgage tax deduction to direct investment in suburban infrastructure, homeownership has grown over the post-war period—but the proportion of money funneled into private residential investment has grown even faster. As a result, the private residential sector has expanded to the point where the part threatens to swallow the whole of the U.S. economy. With their rec rooms, finished basements and two-car garages, middle-class homeowners are palatially housed by West European standards. If so, however, it's only because social services, urban amenities, and, increasingly, industrial investment have been sacrificed along the way.

As the housing bubble has risen, moreover, signs of distress have accumulated at the base, e.g. homelessness, rising indebtedness and an increasing number of



New York's Trump Tower: some '80s speculators bought high-priced "chump towers."

East Coast real estate after the (fool's) gold rush

workers forced to drive hours each day because they can't afford to live closer to work. As the unraveling of real estate continues—one Wall Street firm, Comstock Partners Inc., has made headlines by predicting that prices could plummet 50 percent before it's over—the pressures on the system are likely to increase. The result could be a form of capitalist *perestroika* as Americans confront federal housing policies so badly skewed as to make Soviet agriculture seem like a model of balanced economic planning.

Although still fairly moderate, the declines have been stunning compared to the torrid increases of 1985-87. Outside Hartford, where some houses quadrupled from 1983 to 1988, prices are off by as much as 25 percent. In New Jersey, where homes appreciated as much as 30 percent per year, prices have fallen 10 to 20 percent since 1988, according to a Rutgers University study, while some condominiums are off by a third.

"One of my students bought a condo for \$205,000 right before the crash," James Hughes, a Rutgers professor of urban planning, told *In These Times*. "Recently, he saw the same unit listed at \$145,000."

"People went crazy," added Walter Barnes, a Texas-trained economist who helps man-

age a real-estate investment fund for Travelers Insurance. "It was like tulip bulbs or the stock market. They lost all sense of rationality. They used the immediate past to extrapolate forever into the future, and that never happens."

Just as Dutch speculators in 1637 bid up rare tulip bulbs to where they equaled the prices of small estates, realtors in late 20th-century New England confidently predicted that a \$75,000 house in 1983 would reach the million-dollar range by the early '90s. Now, says Barnes, the market is clogged with unsold houses, while new arrivals are discovering that they can rent for as little as half of what it costs to own.

In Massachusetts, the bust has set off political tremors, throwing the state budget into deficit, sparking widespread cutbacks in social services and delivering the coup de grace to Michael Dukakis's political career. In New York, stagnant real-estate taxes and other signs of economic deceleration have thrown a monkey wrench into the plans of Gov. Mario Cuomo, who must figure out a way to run for re-election this year and for president in 1992 while coping with a projected \$2 billion state deficit. In New Jersey, the state's largest savings and loan has been

taken over by the government, motorists are furious over rising auto-insurance rates and the new Democratic governor, James Florio, is trying to figure out the least painful way to raise taxes.

Trump-eting the transformation: It is Manhattan, however, where the great real-estate boom was particularly grotesque and where the decline is likely to be most painful. Beginning around 1976-77, rising property values swept up entire neighborhoods and transformed them from slums to yuppie redoubts in a matter of years. The boom swelled the egos of super-developer Donald Trump and hoteliere-cum-tax cheat Leona Helmsley and catapulted them into national prominence.

It also transformed the lives of Leona's "little people" as well. Presuming they were able to scrape together a down payment, those lucky enough to have their rental apartments go co-op in the golden years of the early '80s watched their equity quadruple or quintuple nearly overnight. New arrivals who bought in at the proper time were also able to ride the crest.

On the other hand, the boom made life for New York's poor even worse. By driving out what was left of manufacturing, rising property values eliminated employment prospects for an entire generation of unskilled blacks and Hispanics just entering the job market. Relentless budget cuts by the Koch administration forced thousands off the welfare rolls. Large-scale conversions of cheap rental units and single-room-occupancy hotels displaced thousands more.

Combined with a booming underground drug market, the result has been crime, homelessness, a spreading AIDS epidemic among intravenous drug users, and, even more nightmarish, threats that AIDS may also be spreading among the city's legion of crack addicts. Despite this cascade of social problems, rising deficits due to stagnant real-estate taxes and other revenue sources have prompted Dinkins to cut social programs precisely when they're needed most. Declining social conditions further undermine real estate, which, through the much-vaunted wealth effect, further undermines discretionary spending.

The bottom line, as they say on Wall Street, is more empty storefronts, the continued high level of fallout among neighborhood restaurants, less business for theaters and clubs and less revenue for the city overall. Prospects for improvement, moreover, are bleak.

"Things are much worse now," compared to the 1975 fiscal crisis, said longtime political hand Ed Costikyan. "No question about it. Back then we had no homeless, no major drug problem. Today the schools are a disaster, and we've got social problems coming out the ear."

Whereas New York was rescued in the '70s by both inflation—which effectively reduced the municipal debt—and boom times on Wall Street, today, Costikyan added, there appears to be no such white knight to sweep the city off its feet.

In the beginning: In order to understand where real estate is heading in the U.S., it's necessary to understand where it's been. Difficult as it is to imagine, real estate was rarely the cash cow that it was in the post-war period. As Comstock Partners' Michael Aronstein told *Barron's* in 1988, "Anyone buying urban land in the latter third of the 19th century probably didn't live long enough to see it appreciate."

Continued on page 10

IN THESE TIMES JAN. 31-FEB. 6, 1990 7



East German protesters equate SED-PDS leader Gregor Gysi (center) with Nazi forces.

Berlin Wall not the only rubble in East Germany

By Gordon Lewis

EAST BERLIN

THE POLITICAL SITUATION IN THE GERMAN Democratic Republic (GDR) is growing increasingly volatile with each passing day as *In These Times* goes to press. While opposition groups and the coalition government led by the Communist Socialist Unity Party (SED) gather around the "round table" to debate, an angry population is taking to the streets. Workers are staging warning strikes, and factory bosses are withholding production and refusing to pay taxes.

Nobody appears in control. No one has produced even a vague plan to master the problems at hand. Even the newly formed Social Democratic Party (SPD)—although closely linked to policymakers in its West German sister party—has failed to formulate a convincing strategy. The peaceful October revolution, already radicalized in the wake of revelations of widespread party corruption, has taken yet another bitter and aggressive turn. In Leipzig, the organizers of the now traditional Monday marches have relinquished their leading role, leaving the field to more brutish elements. Each day as many as 2,000 East Germans seek asylum in the West, seeing little future in the reform process as it now stands. The average citizen has concluded that the logical road to recovery is the road that leads to reunification.

So what's gone wrong? Why is the GDR not capable of moving in a direction similar to Hungary's? After all, East Germany has by far the most promising economic foundations among the East Bloc countries. The answer has begun to dawn on people in the first weeks of 1990. The revolution is not

complete. Despite the sweeping away of the old guard and the promises of reform as expressed in a change of party name from SED to SED-PDS (Socialist Unity Party—Party of Democratic Socialism), the party remains a state within a state.

Across the country, SED-PDS cadres still sit in the same offices they occupied before the events of October and November and are unwilling to relinquish their preferred

EAST BLOC

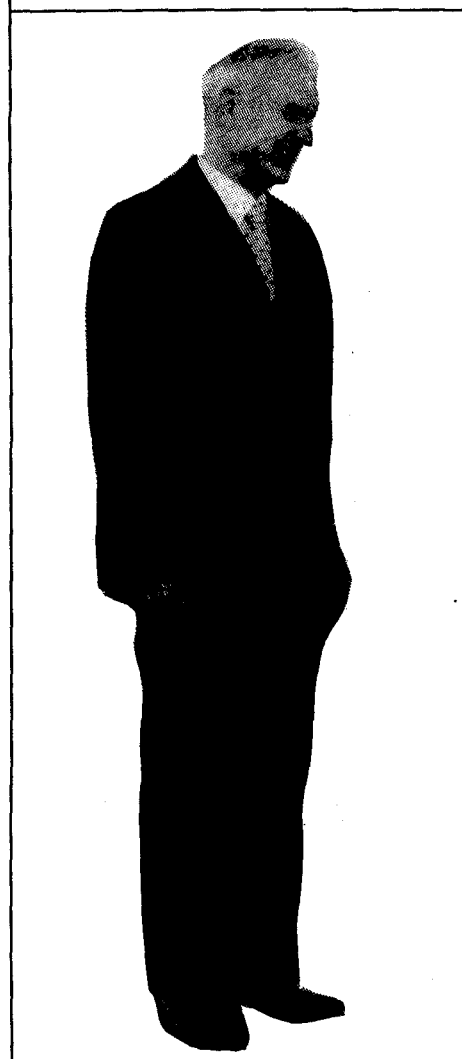
status. The abolition of the constitutional clause guaranteeing the party's leading role in society did not alter this fact. Even after the departure of Erich Honecker, the SED-PDS remains a huge political force with enormous economic clout. The party still owns import-export firms, publishing houses and most media-related industries. Thus if the opposition wants to print a newspaper, they must work with their political opponents. Under these circumstances, opposition leaders argue, no fair election can occur. Most in the GDR agree that the SED-PDS must part with much of its wealth, but nobody really knows how to prompt such an action and then enforce it.

Shifting winds: After a few weeks of feigned penance and solemnly sunken heads, conservatives in the SED-PDS went on the offensive in early January. Aware of their overwhelming advantage, the party tried to gain control of public debate. Using the growing wave of enthusiasm for reunification for its own purposes, it began a campaign against "the right-wing threat," not so subtly linking reunification, which even the East German SPD has accepted as a long-

term goal, to neo-Nazism.

On January 3, the colossal Soviet War Memorial in the East Berlin district of Treptow was reportedly attacked by vandals. Graves were destroyed and anti-Soviet graffiti sprayed on the collection of monuments built from the remains of Hitler's "Führerbunker." The GDR was shocked by these revelations. Yet this was nothing compared to the anger people felt a few days later. The SED-PDS, seeing a perfect opportunity to launch its offensive campaign, called for a demonstration. Two hundred fifty thousand

Prime Minister Hans Modrow takes the heat.



people attended and heard party leader Gregor Gysi preach about the current danger and the need for a "united front" against the right—i.e., fascism.

Old Communists in the crowd had to suppress their grins. "United front" tactics were always invoked when the Communist sway on the population was at its lowest; thus "the united front" is an admission of defeat for a doctrinaire Communist. The crudely staged demagogic exercise was a throwback to the monolithic spectacles of the Honecker era—a fact that those in attendance were painfully aware of. More important, the demonstration confirmed East Germans' deepest suspicions about the SED-PDS. It was a major political blunder.

As if the damage caused were not enough, new information leaked a few days later suggested that the party may actually have staged the attack on the memorial. First, the slogans written on the monuments were devoid of the slang typical of right-wing circles. In fact, phrases such as "For a united Europe of fatherlands" and "Smash the last people's prison—smash the USSR!" sounded like they were taken from a Stalinist agitprop textbook. One skinhead interviewed in East Berlin commented, "We would have written something like 'Kill the f----- Russki bastards.'"

Second, the vandalism at Treptow was so extensive that many people must have worked for hours to complete the job. Yet the memorial is always heavily guarded, raising the question of how the vandals escaped detection for such a length of time.

Party leader Gysi quickly labeled such accusations "absurd," and the whole issue might have remained a tempest in a teapot if the SED-PDS hadn't launched its second leg of the offensive, the reinstitution of the hated state-security apparatus STASI. To the public, restoration of a state-security ministry, be it called STASI or go by any other name, was tantamount to a restoration of the old regime. The SED-PDS' public call for its revival was political suicide.

The threat of right radicalism has existed for years. Documents in STASI offices across the country show that the government kept close tabs on potential right-wing radicals, merely hiding their existence from the general public. In many cases, far-right ideology was triggered by the gray hopelessness and depression known as "real existent socialism." But once the SED-PDS found itself up against the wall, it chose to invoke the specter of neo-Nazism.

Turn around: Opposition leaders, long suspicious that the SED-PDS did not intend to dissolve STASI, had still listened to arguments to the contrary of the government of Hans Modrow, believing Modrow was a man of integrity. The memorial incident cast the SED-PDS' call for a security apparatus in a completely different light, however, and when the round-table discussions convened on January 8, everything looked apparent. The opposition demanded a full report on the security situation, giving the government leader two hours to appear in front of the group. Luckily for Modrow, he wasn't in East Berlin to take the heat. His absence may have saved the round-table discussions: instead of pulling out of the negotiations, the opposition voted to suspend talks for a week.

In response to the imminent threat of the breakdown of the coalition, Modrow played his trump card: the threat of an immediate plebiscite to decide who should govern.