



world economies

The FIRE Economy: Globalization, Urbanization, and Opportunity in Real Estate

by William Endsley, World Citizen Consulting, LLC

Housing is the foundation of the finance, insurance and real estate (FIRE) economy. In a FIRE economy, governments work together with banks, insurers and real estate professionals to provide credit based on real estate assets. One effect of urbanization is the move from a production economy where workers produce goods and use their pay checks to buy goods to an economy where the FIRE sector predominates. This credit allows workers to buy more and the economy accelerates. The U.S. economy is the world's prime example of a FIRE economy.

A Worldwide Phenomenon

Over recent decades, the FIRE economy has spread to the entire world. According to the United Nations, there will be more than 20 billion households in need of financing assistance in the developing world by 2030, when global mortgage origination is expected to reach \$3 trillion. At the same time, employment in the financial services sector—professional real estate brokers, appraisers, bankruptcy attorneys, credit raters—in these regions is critically low. In the U.S., employment in this sector is 11.4 percent. In Indonesia it is 0.8 percent. World stability will depend on the development of these financial intermediary professionals in emerging markets, particularly in the tropical zone around the equator and in the southern hemisphere.

For the last century, economic development has flowed from west to east and back again. After World War II, the U.S. invested heavily in the development of Japan and Korea. Within a few decades, the Japanese returned the favor by buying up U.S. real estate. Most areas around the equator and the southern hemisphere, however, have been left out of the FIRE economy. In the future, economic development is likely to be in the north to south flow, to areas such as Africa, Indonesia, the Middle East and Central America.

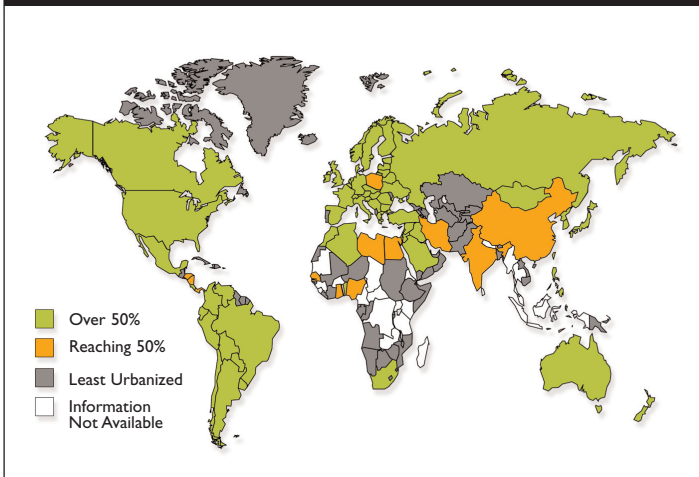
Understanding the Context

What does this mean for you, as an international real estate practitioner? The first thing you must do is to develop an understanding of the globalization context. The financial services sector has become a 24-hour a day, borderless, technology driven system, in which Banker's Trust of Boston is now Deutsche Bank of Germany and LaSalle Bank of Chicago, which used to be owned by ABN AMRO of the Netherlands was spun off to Bank of America as part of the recently well-publicized sale of ABN AMRO to a combination of the Royal Bank of Scotland, Fortis, a Benelux company; and *Banco Santander*, a Spanish bank.

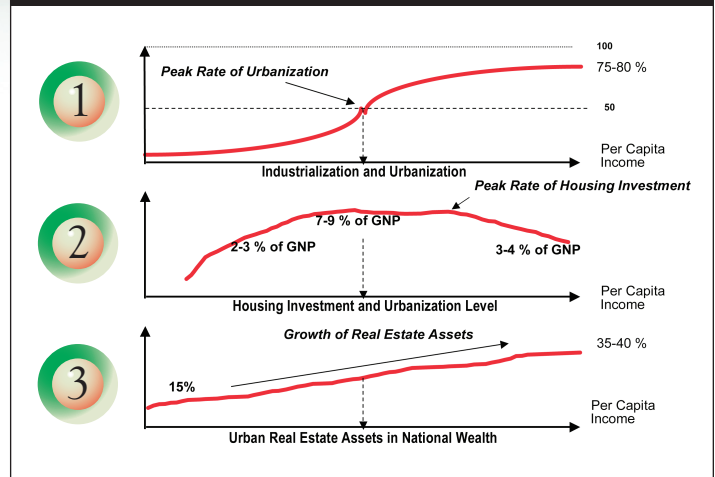
Real estate investments continue to outperform investments in stocks and bonds. Institutional investors all over the world are increasing their real estate holdings, and they are not investing in single office buildings, or even in hotel chains or shopping centers. They are moving billions of dollars into huge portfolios holding thousands of properties. They are not concerned with the specifics of any one property, but rather with the overall return on the investment (ROI). To these investors it isn't "location, location, location," but "return, return, return." Furthermore, even though the risk may be higher, many of these investors are looking towards the developing world because, for example, as the Western European population ages, and pension funds are distributed to an increasing number retirees, the funds need the higher return provided by real estate investments in Argentina, Chile, Southeast Asia and the Middle East.

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Countries Over 50% Urban Today



The World's Rate of Urbanization is Reaching its Peak



Urbanization Accelerates Development

Urbanization rates are another trend to watch. As urbanization approaches 50 percent, government subsidies in housing begin to decline and the private sector starts to take over. To facilitate private sector activity in these areas, governments open their markets to foreign direct investment (FDI). For residential REALTORS®, these emerging markets are primary for second and retirement homes. Then, as governments move away from housing subsidies, they begin to look at strengthening the non-residential sector—office buildings, hotels, and shopping centers—to support the stabilizing work force and rising income levels, which provides opportunities for commercial REALTORS®. Often tax incentives are put in place to encourage foreign investment. The phenomenal development in Panama and Costa Rica over the last five years is an example of the opportunities in real estate as economies reach 50 percent urbanization.

The Role of Professional Organizations

The development of the civil society sector—professional organizations that help regulate and build the capacity of real estate practitioners—is crucial to this economic flow. Pioneering U.S. REALTORS® who work in these developing areas report that there are no public data systems such as the MLS system, that available data is seriously inaccurate, and that clear title is hard to come by. In order for these areas to truly be brought into the FIRE economy, it is vital that organizations like NAR, the International Real Property Foundation, the Appraisal Institute, and others work together with multilateral development banks such as the World Bank and the Inter-American Development Bank, and with funding agencies such as the U.S. Agency for International Development, to develop real estate professionals with common standards and ethics, universal methodologies, and sister organizations that support their efforts.

Professional membership organizations act as a counterbalance between the appetite of business for profit and the regulatory predilection of government. Without the moderating influence of professional associations working for the public good, there is nothing to stop corporations from pursuing profit at all costs and governments from over regulating. Associations can work to develop trust and to educate communities so that property title systems can be developed, allowing massive amounts of dead urban assets can be brought into the system. The work of Hernando De Soto and the Institute

for Liberty and Democracy in Peru¹, chronicled in the book *The Mystery of Capital* is an example of how associations working at the grass roots level can not only bring the extra-legal into the system, but also demonstrate how such efforts can contribute to global security.

Associations can provide pilot projects for slum upgrading, the rehabilitation and privatization of public housing, and the development of micro credit. The 2006 Nobel Peace Prize went to Muhammad Yunus² the founder of Grameen Bank in Bangladesh, a pioneer in the development of micro credit. His basic idea is that credit is a fundamental human right and that poverty can be eliminated through creative systems that provide people with access to the FIRE economy on a scale they can understand.

Unlimited Horizons

As global real estate professionals cope with the inevitable economic cycles of the U.S. market, opportunities abound in international markets. Somewhere in the world the real estate cycle is on the way up and money is flowing in. The expertise of the real estate professionals from the most advanced real estate system in the world are in high demand. On the collective level, real estate associations must do more to see that professionals with common ethics, standards and methodologies are in development all over the world. Whether you understand that the market for your local property includes institutional investors from all over the world, or you are seeking to sell vacation homes in Phuket, the globalization of the FIRE economy provides you and all real estate professionals with unlimited horizons. [\[1\]](#)

¹www.ild.org.pe/en/home

²www.muhammadyunus.org/