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## **New Hampshire: For the commercial real estate market it is still all about jobs**

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As I sit to write this column, we are having snow again, 2+ inches, and still coming down. Well it is December and even though recently it was 65° and I got five invitations to play golf (alas, I had to keep my nose to the grind stone). Snow is to be expected this time of year.

The erratic temperatures are similar to the economic news: warm one day, mild another, cold the next. There is no clear pattern, but just as we know what comes with the onset of winter, the worst of the Great Recession seems to be behind us. So we simply have to endure a slow gradual recovery, just like we "enjoy" four months of winter.

For the commercial real estate sector, ultimately, it is all about jobs. It takes jobs to fill buildings. I was asked to search for 6,000 s/f of office space in Manchester (only). I entered the required fields in our CIBOR Catalyst System, hit print and stepped away for a moment. Two minutes later I came back and the report was still printing—“not good! It was 48 pages with 3-6 listings per page. A few days later I was at a regional Infrastructure Summit and during a lull in the action, I decided to add it all up—790,200 s/f available! The real number is larger if we add spaces smaller than 6,000 s/f and the few property owners who do not participate in CIBOR, New Hampshire's statewide Commercial Investment Board of Realtors. This equates to about 30% office vacancy in Manchester. But if we assume one worker for 200-250 s/f, then that is 3,160-3,950 jobs needed to fill this space. I do not see it on the near horizon. There is no electronics, defense, computer or dot com boom that is coming our way. This is going to have to be done the old fashioned way, by small businesses with 3, 4, 5 or 10 jobs at a time. The challenge is that this is not a regional slowdown, every SMSA in the country is weak. We have lost 6.9 million -7.3 million jobs, equal to all those gained nationally since 2000. There are 9.9 million people out of work, 30% for more than 26 weeks, and a similar number who consider themselves under employed.

So from our vantage point here in New Hampshire, 2010 looks to be more of the same. Very similar to 2009. Again, we need to tie a knot and survive to 2011 when most prognosticators see measurable and steady growth as a real possibility. However, this is a long time for owners with high vacancy and mortgage or conduit loans rolling over. There are a myriad of factors in the equation, but simply put, there was something on the order of \$3 trillion of excess value in commercial real estate. The bubble burst (is bursting?) and we need to squeeze that excess out of the system. The sooner the better. The painful experiences of Japan, where they essentially tried to sweep the bad loans under the carpet, have led to 19 years of little/no growth and a very stagnant economy. Ah, you say, that cannot happen in the U.S.! Well, keep in mind Japan was and still is the second largest economy in the world.

If real estate values and a high unemployment rate were our only challenges, finding the right path would be relatively easy. But there is so much more going on. Wars in Iraq and Afghanistan, a major

(and expensive) national healthcare reform bill, mushrooming government deficits (state and federal) a weak dollar, rising commodity prices (another bubble?) . . . Ugh! One can easily get overwhelmed. It may be that significant job creation is getting lost in the shuffle.

One of the best books I have read in recent years is "Limits of Power: The End of American Exceptionalism" by Andrew Bacevich. He succinctly (186 pages) and forcefully spells it out. The U.S. cannot do it all. We have an aging population (the number of Americans over 65 will double in the next 15 years) and major underfunded entitlement programs along with a Congress that currently thinks more government spending is a good thing. Nationally, we are out of balance.

Were the 7 million U.S. jobs created since 2000 phantom jobs? Were they solely derived from the hyper economy, huge capital flows, exotic financial instruments, and homeowners using their homes as ATMs for unsustainable consumption? This Great Recession will not have a "V" correction like we experienced in 2000 and 2002. This will take much longer and it should if we are to truly de-leverage and get our American households back to a more even keel. Someone needs to credibly establish what our gross state and gross national products will be and only then can we determine how much government we can afford. At that point, creative, entrepreneurial and innovative people will identify market opportunities, start firms, hire people and lease space. It sounds simple but there are mountains of inertia in the way right now. President Obama needs to rethink his priorities and reset his agendas. It was not too long ago we were told, "It's the economy, stupid!" A strong vibrant economy can take on meaningful healthcare reform. A weak, stumbling economy cannot. So 2010 is likely to be a turning point one way or the other. I hope we as a nation reset our priorities and goals and get back to fundamentals—the business of America is business. Release the innovative entrepreneurial spirit of America and we can emerge from the Great Recession stronger and better. It will be small businesses, not over taxed nor over regulated, that can do the heavy lifting.

In the 1980s, when Digital Computer closed their Merrimack and Nashua facilities, 800 people were let go. It started an economic boom as many of them came together and started businesses. New Hampshire has led New England before and can do so again. A year from now, I hope to report we are making real progress.

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