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"To get to heaven, you need to get to 11!" We are one-sixth of the way there

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Jobs, Taxes, Rents,.....

The sun is pouring through the window on this Super Bowl Sunday in February, but it is still pretty cold out there. The economic news is mixed (more shortly) and most of the pundits are easing off their forecasts for strong numbers in the first half of 2010. Let's look at some of the headlines and indicators, which whether we like it or not, do influence both consumer and business behaviors.

"Public REIT's have loads of cash, little to spend it on. Publicly traded REITs raised \$29 billion in 2009 but only spend 4.6 billion, a 67% decline from 2008. REITs are having trouble doing deals because there is a dearth of product on the market. With commercial properties trading 35% off their peak, most building owners are keeping their best assets off the market. Those properties that do go on the market are attracting herds of buyers looking to snap up cheap real estate." (Wall Street Journal February 3)

"Spend, spend, spend. Less positive was the bloated and deficit- heavy budget proposed by Pres. Obama for fiscal year 2011. Spending of 3.8 trillion with 1.3 trillion being the deficit!" (TEA newsletter February 2)

"Good news! The savings rate closed the year at 4.8% (unless you are a retailer). But (there's usually a but - or two)... construction spending declined in December; light vehicle sales took a step back in January; announced job cuts are down 70% against last year, but are still happening; the service sector posted a negligible expansion; and private employment is still contracting." (Bank of America -- Merrill Lynch weekly report February 5)

So the economic and business news headlines are not exactly uplifting. Jeff Thredgold looks at the disconnect. "What's important to the people? The three most important issues to the typical American today are employment, the skyrocketing national debt, and national security. There is something about a 10% national unemployment rate that gets people's attention." He adds "What is important to the political leadership? The administration is almost significantly focused on passing a costly, ineffective and ruinous healthcare albatross that the majority of Americans do not want." (TEA January 20)

A year into office and the administration is struggling to create jobs or more importantly, to create a tax and fiscal environment that will prompt the private sector (especially that workhorse -- small-business) to create jobs. Nobody said this was going to be easy, but flying into Nashua, NH to approve the transfer of \$30 billion (deficit dollars from the TARP) to the SBA to encourage lending to small businesses to create jobs misses the mark. The overall economy is soft/flat, there is not significant growth and thus we do not want to borrow more money, even if it was to hire more workers. Tax credits are great but if after 2008 and 2009 you do not owe any federal taxes, tax credits are not going to motivate small businesses to hire. We hear repeatedly that small-businesses

created 65, 68 or 70% of all new jobs. What would induce small companies to hire? Perhaps direct credits off their withholding taxes or other monthly obligations. But then again until there is a sense that the economy is on the rise, actually expanding, like those REIT funds mentioned above, most folks will stay on the sidelines until they are convinced that the economic uptick is real and sustainable.

If we were only dealing with jobs and taxes it would be one thing, but the cost of healthcare (our insurer presented two renewal proposals with a 62% increase!). COBRA benefits have been extended, unemployment taxes are back. It is expensive to hire new employees. With the mixed signals from the indicators, most small-business owners are going to take a wait-and-see attitude. Personally, I agree with them.

So, for the commercial real estate sector in NH, 2010 will continue to be a long slog. As several national real estate organizations have said "to get to heaven, you need to get to 11!" We are one-sixth the way there.

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