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By Bill Norton-Sooner or later, the commercial real estate sector, beyond multi-family, will come back into style

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This past week we experienced the 10th anniversary of 9/11. That decade was quite an exciting one for commercial real estate. The stage is best set going back to the slump/crash of the late 1980s - 1990. Back then, it was too much capital, especially by banks going public, chasing too few deals - leading to reckless lending and overbuilding. The FDIC rode into town and inserted a large enema (called Banc One Asset Management). Over 23,000 loan files were dealt with, most often with big discounts, getting properties back into the hands of the private sector. Of course, back then the cost of cleaning up the savings and loan crisis in Texas and the southwest, and the FDIC in the New England area, was only a few billion dollars.

Retrospectively, we learned that we came out of the recession in late 1993 or early 1994. There was this dot-com thing going on, which several years later became the Tech-Wreck of 2000. However, during this period office jobs were growing like broods of baby rabbits. But, while we are only looking back 10+ years think of the state of technology - e-mail was de-rigueur, cell phones were proliferating, working from home was taking off, which led to consulting and contract employees. This fast pace of change continued right up to 2009, when the FIRE (finance, insurance and real estate) sector imploded. I just finished the book *All the Devils are Here*, written by Bethany McLean and Joe Nocera. It is a wonderful look back at the crazy out-of-control expansion of the financial sector, selling homes to unqualified buyers, having a majority of Americans refinancing their homes to use the perceived equity as an ATM to go on vacations, buy hard and soft goods, new cars etc.

Then... then it all came apart. \$3 trillion (with a T) disappeared overnight. The federal government jumped in, using Keynesian principles to reflate the economy. The US debt doubled almost overnight. With the Papa Bear (the Feds) going bust, the squeeze pushed down stress onto Mama Bear (the states) and ultimately to Baby Bear (the cities and towns). The TARP, the Stimulus and an alphabet of other programs were funded and initiated to get the economy growing again. Do they work? That is for others to decide a few years from now.

There are regional differences here. The big metro centers (New York City, Washington, San Francisco and Chicago) seem to be holding their own. Florida, Atlanta, Phoenix and Las Vegas are in the dumps. Here in New England, New Hampshire and Massachusetts seem to be holding their own while the other four states are still struggling. In states like New Jersey, they are choking on debt and out-of-control spending. So the private sector remains quiet while the public sector is gasping for breath.

The Great Recession started in Quarter #2 of 2008, so we are now three years in (I am not convinced we ever came out of this recession). So, where do we go from here? Well, let's start with the fact that ours, the US economy, is a service economy. We don't have much anymore. It is hard

to grasp the "value add" of the service economy. Yes, we pay wages, which results in consumer spending. We pay our mortgages, our car payments, buy food, pay tuitions for our children etc. But is our economy growing? Or are we swimming in place? The public sector (all governments in the United States) is 43% - 44% of GDP! And 46% of U.S. households do not pay any federal income taxes! It is time to rebalance. By that, we do need to shrink government to the point where we pay for it without borrowing, not to mention borrowing 40% - 50% of our annual operating budget. We need to pay reasonable and fair taxes (75% of us, not just 46% of us). We need leadership to convince us that our cumbersome democratic system can function and we can once again be a large (if not the largest) economy on the globe. That is a tall order. I haven't seen anybody drive up in their campaign bus and get off on Main St. in Concord who has me convinced they can get it done. Have you?

Now, if I were king for a day... term limits, a flat tax, smaller government (at all three levels) and encouragement to young people to be entrepreneurial would be my first decrees. I would shut the air conditioning off in DC on May 15 and not start it up until October 15. I would reinstate the bi-annual session in the New Hampshire legislature - make it a part-time position, enabling many more citizens to serve. These musings are fun but realistic - no. We are a bloated society and real change is not going to come easy. So, we here at Norton Asset Management will hunker down, keep our noses to the grindstone and keep helping our clients trim costs, maximize output and grow where they can. Sooner or later, the commercial real estate sector, beyond multi-family, will come back into style. Investors will look for hard assets and commercial properties will start trading again.

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