CELEBRATING 55 YEARS nerej

As fall approaches, we are plugging away here in New Hampshire and there is a sense that 2013 will be better than 2012

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It is hard to believe that Labor Day was just 5 days ago. This summer seemed to blow by. First, we at Norton Asset Management were very busy. Sometimes, we say we are busier than we would like to be, but then we reconsider and put our noses back to the grindstone! Some of that business is derived from our conscious decision to expand our reach. We are working on projects in New York, New Jersey, Washington DC, Maryland, North Carolina and South Carolina. This involves travel. Some weeks/months this is organized, scheduled travel and some weeks it is crisis, "come put out the fire" travel. The first is manageable (no business travel is "fun" anymore). The second is a pain, but it goes with the territory as they say.

The point is that in quiet New Hampshire things are plodding along, ok, but not great for the commercial real estate world. There are fewer practitioners after 4 years since the financial collapse and sustained "re-set" of the economy (which is still ongoing). At the spring meeting of the Counselors of Real Estate in April in Chicago, the optimists were saying another 3 years... while the pessimists were saying another 7 to 8 years! I do not expect much change in those prognostications at the fall meeting in October.

One of our larger clients is based in Manhattan, in fact, in Midtown. There has been no recession there. Rents are up 25% to 35%. One landlord announced that if we want to renew, the rentable square footage is no longer 18,200 s/f per floor, rather it is now and for the next 10 years 22,400 s/f per floor! Yes, that is a 23% increase, even though the building has not changed! The logic is that other landlords are getting 23% to 25% loss factors and so should they!

For the same client, I found a building in downtown Brooklyn. The lot is 100' x 100' = 10,000 s/f. The building is built to the lot limits (100' x 100' = 10,000 s/f). However, the rentable square feet on the second floor is 12,000 s/f! Now, some of that is justified -- a shared lobby, elevators, and use of electrical and mechanical spaces not on the floor. But in New York City (and other hot markets) buildings "grow" when the demand is strong.

That is not the case in New Hampshire. Our buildings do not typically "grow". From a global, financial view and the flow of the capital markets, Manchester is a tertiary market. Global capital will invest in the John Hancock Building in Boston, office buildings in New York (Washington, Chicago, San Francisco and Los Angeles) but not in New Hampshire. Our overall market is too small. So, our funding for buying and selling buildings is more local (and pricier).

I spoke to an appraiser recently doing an appraisal on a proposed Class A office building south of the Manchester Airport. What is the land (with approvals for several Class A office buildings) worth? In the heyday (2003 - 2007), we might have said $30 - $40 a buildable foot. But not today, because the office market is in surplus, vacancy is high and rents, even for new buildings, will not top $20 per s/f- $22 per s/f, especially for big tenants. Some landlords boast rents in the low to mid $20s, but those come with many concessions -- free rent, above standard tenant improvements, etc. Regardless, the office market is soft, and but for a big increase in office employment, absorbing new space will be challenging initially. However as existing inventories of space age in place, new space, fully ADA compliant, with ample power for technology, good HVAC etc., will be in demand. The challenge will be delivering it at a price commensurate with current office market rents. The fact that some new construction is being contemplated is a good sign.

So as fall approaches, we are plugging away here in New Hampshire. There is a sense that 2013 will be better than 2012.

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