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The commercial real estate sectors in 2013 will see more of the same

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This last article for 2012 was supposed to be a watermark, signaling strong and sustained resurgence of the commercial real estate sectors. Alas, it appears that 2013 will be more of the same (and maybe 2014 beyond that).

While we are experiencing near record low costs for mortgage funds and ample quantities of capital, there are still many headwinds dampening enthusiasm for buying commercial real estate. To name a few - employment remains soft (it takes people to fill buildings); real estate taxes go up as municipalities struggle for revenue; while natural gas supplies are strong and pricing is competitive, oil and electricity continue to creep up. Tenants want short leases and fit-up costs are hard to amortize over only 2 - 3 years.

Many buildings have had significant vacancies for several years. After a while, these tired spaces become unappealing. I was touring with two prospective tenants looking for 2,000 s/f yesterday. We walked in (and out) of three spaces in less than five minutes. They were dirty, no lights (electricity turned off), cold and simply not showing well. They gave the impression the landlords were not "in the game."

So, investors will be cautious, likely only proceeding if they have 2 tenants in hand. But users are also becoming cautious as appraisals are stingy, fit-up costs are significant, especially with increasing code compliance (ADA, life safety and energy to name a few). At the same time, office rents are low, so it is hard to show ownership to be a lower cost than renting, at least for the time being.

When will this change for the better? Good question. We need jobs (of all types, not just retail). It takes people to fill the spaces. Corporate profits reached a record in the third quarter. U.S. corporations are reported to be sitting on \$2 trillion of cash, but they continue to do more with fewer employees.

Local economic development folks debate whether they should focus on working with existing businesses v. recruiting new businesses. In New England, we are convinced our future is starting and growing small businesses. Are there hundreds of entrepreneurs out there, ready to take a good idea or good product to market? After 4+ years of recession, we are hoping they are going to finally take the lead. I am cautiously (very cautiously?) optimistic that things will improve over the next couple of years, but it will be modest and hard to discern. Even New Hampshire, the former gazelle among the New England states, is experiencing out-migration. So, steady as she goes. Hopefully, next year-end we will be more upbeat.

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