

Emerging trend includes functional and economic obsolescence of properties that have been vacant

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What a fantastic 3 to 4 weeks of late summer and early fall. I wish I was retired so I could putter in the garden and play golf! Alas, I still have a few more years left. But the nice weather has people upbeat. The Tri-City Expo on September 26th was very well attended. Folks were more positive than negative. There were oodles of banks there, all looking to lend.

The one cloud was/is the Affordable Health Care Act. It has small and medium businesses shaking their heads. It is confusing and a little bit scary. Oh yes, the government ran out of money and furloughed workers (my daughter is one). Most local folks are fed up with both sides ("a pox on both their houses!"). But closer to home, everyday businesses are grinding out profits, quarter to quarter. It ain't easy, but it is better than the alternative. These businesses look to succeed despite Washington, not due to their largess or beneficence! Three major trends in commercial real estate seemed to be emerging. First, the quantity of available space is keeping the market's competitive. Landlords are not getting large rent increases (if any at all). So tenants are renewing, some trading up to better space and others staying put but with better deals. What also is emerging is the functional and economic obsolescence of many properties that had been vacant since, or before, the Great Recession which started in 2008. I walked through some office space in Concord two weeks ago and I recalled that I had shown it to prospective tenants twice in the past 7 to 8 years! In fact, it has been vacant for 10 years.

So, how is it that new office space is being built? Well, these older, obsolescent buildings can no longer attract tenants. The sweep of technology demands, open space plans with lots of power, and plenty of air conditioning. In addition, workers seek green and lean (and clean spaces with no dust, no allergens, no mold, etc.). With capital awash in the markets (remember those oodles of bankers at the Tri-City Expo?), it is a good time to borrow. Many communities are looking to redevelop (i.e., shore up) their downtowns so they are making sites available with funny money via New Market tax credits, Tax Increment Financing, 79E tax "freezing", historic tax credits, etc. So there are new buildings coming online. Not a lot, but some. All that is needed is an anchor tenant (or two) willing to commit for 10 years or more.

Alas, the downside is that these anchor tenants most often come from nearby buildings that now become vacant or largely so. Those buildings seek replacement tenants and those are the value seekers mentioned above, looking to trade up to better space at no greater cost. In fact, often at a lower cost of occupancy. Now the properties they vacate - that is where it gets tough because the markets simply are not robust. There are not dozens of tenants vying for a small number of spaces. In fact, there are often a dozen spaces available to every serious tenant prospect. In time, this will balance out - it always does, but it could take a while - perhaps a long while. One factor in bringing supply and demand closer to a balance is when one property type converts to another use. In

Boston, dozens of tall, skinny office buildings became condos and apartments (you need a window in every bedroom by code, so buildings with large floor plates do not convert very well to residential use). This works in larger urban environments because of density, public transit and agglomeration (when different parties and uses thrive on being close to one another). However, it is more difficult to achieve in smaller communities with more rigid zoning. They "talk the talk" such as "New Urbanism", etc. but they do not "walk the walk". To create parking, redo infrastructures, roads and utilities and create public spaces costs money - the way to get these projects to pencil out is to increase density - more square footage per acre. One New Hampshire Seacoast community actually is reducing density - a lower FAR (floor area ratio) and complains that no developers will come to bid on their project! Change comes slowly to New Hampshire's 230+ communities. During protracted economic downturns is an excellent time to consider planning and zoning strategies and implement new tactics to achieve them. Alas, in such financially meager times the public resources (and will) are often constrained. When business and demand picks up, everyone will be too busy to delve into these time-consuming processes and then we wonder why we don't see vibrant downtowns and neighborhoods we put in our master plans. It is a conundrum.

So for now, enjoy the magnificent fall days. There are far too few of them and we all know what comes next!

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