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Rising costs stripping revenue sources in the New Hampshire economy

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We are nearly half way through 2008. Every day people approach me and ask, "How are you doing? Are you busy?" The answer is we are very busy, but more on the consulting and advisory side than brokerage. That does not mean that we do not have active brokerage assignments, but transactions are slow and tentative. We attribute this to a general sense of unease and tentativeness throughout the business sector. Manufacturing is under significant stress and while there is activity in the office sector, there is virtually no net absorption.

The current slow down in the economy has further exacerbated job formation. It takes jobs to fill buildings. We recently did a search for a small office requirement in greater Manchester. We found more than 60 spots of 1,200-2,000 s/f which in aggregate totaled nearly 100,000 s/f. The rule of thumb is one office worker for about 200 s/f or about 5/1,000 s/f. So 100,000 s/f could require 5,000 jobs to fill up. Clearly the region is not attracting large office employers. Instead, of one 500 person employer such as Comcast, our future is more likely to be 100 companies of 5 employees. In fact, many new companies are micro businesses of less than 5 employees. This trend impacts more than the absorption of office space. It affects sales efforts of office supplies, equipment and services. It also affects membership in Chambers of Commerce and other service organizations. The state's chambers are challenged to match services to the new mix of members—more small members and fewer large and medium members. This is further influenced by the continued shift to the service economy. One recent report stated that only 19 out of 100 workers in N.H. make/manufacture something today. The corollary is that 81 out of 100 work in the service sector.

One component of the service sector is healthcare which has been expanding steadily. Most if not all of the state's hospitals have capital construction projects underway or in the pipeline right now. Healthcare is a major economic engine but simultaneously healthcare costs are in the stratosphere. Our health insurance was with Patriot Healthcare who merged into MVP late last year. We had a 22% increase and this is for a high deductible program with a Health Savings Account (HSA) program. For the past 20 years many of our employees had their healthcare coverage elsewhere. Some were phone company retirees, others had spouses with better/cheaper plans. But today all employers are forced to either reduce coverage/benefits and/or pass more of the coverage cost on to the employee directly. The cost of healthcare annually in N.H. is at least 13% and perhaps 15% of the Gross State Product (i.e., 13-15% of every dollar spent in the state). This figure will continue to climb. With public education under funded, the state running a deficit, the counties, cities and towns all under severe fiscal stress, wage earners paying more to fill their gas tanks, heat their homes, put food on the table and higher priced consumer goods due to the soft U.S. dollar, along with employers absorbing higher energy costs, higher transportation costs, and higher raw material costs

due to the soft dollar, sources of new revenue are very scarce.

As inflation continues in these key economic elements, the dollar remains soft and global competition continues to preclude the increase in prices for US companies, this recession may be prolonged. The soft economy is dampening credit markets and availability. The sub prime mortgage mess continues with as many as two million adjustable rate mortgages reset in the next 12 months.

So as the democratic presidential primary moves to closure, the U.S. deficit mounts and the interest rates needed to sell U.S. treasuries are climbing, it is a very dicey time to want to be the President of the United States. I attended my daughter's college graduation today and the commencement speakers' litany of mistakes during the current presidency was long and not that far off the mark. We have a great deal to do to reestablish our leadership role globally. While we are still the largest economy by far, we are not well liked and our consumption of so much of the world's petroleum as well as other important commodities is putting us face to face with the growing economies of Brazil, India, China and Russia, to name a few. The extensive foreign affairs pressures leave little time for the next president to lead and show initiative on domestic matters. Like our governors' the costs of healthcare, public education, retirement benefits and day to day operational budgets are out stripping revenue sources. A soft economy lacking job creation and expanding businesses put a big dent in our ability to pay. This whole jumble of issues suggests that this recession may be longer and deeper than the last two mini recessions. One likely outcome will be the re-pricing of both residential and commercial real estate by 12-15%, which will bring them both more into line with historical norms.

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