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With fall, comes the fourth quarter and 2017 has been a surprisingly robust year - by Bill Norton

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Fall is here. I know it because just two hours ago I raked my first maple leaves off the front lawn! With fall comes the fourth quarter. 2017 was a surprisingly robust year. Driven by high construction costs, existing buildings increased in value, and by now appraisers were catching up with these climbing values. Of course, from an income approach, cap rates had to tighten. But, at a national level, cap rates were rising (Starbucks sites no longer commanding 4.5% or 5% caps). Multifamily housing, still very much in demand, was holding its own. But in many A and B markets, such as Boston, there are many new residential units coming on the market. While the books are not closed on 2017, it looks like another good year.

So what are we looking at for 2018? The fundamentals are still quite strong. There is still more capital chasing too few good deals. Some markets seem “near the top,” others feel overbuilt. Industrial/high-bay is in short supply and thus high demand, but there are rental price limits in this market sector. And retail – well retail – is so volatile (such as Amazon buying Whole Foods). In Los Angeles in May at the Spring CRE Conference we learned that there are 20+ s/f of retail space for every man, woman and child in the U.S. versus less than 4 s/f in Europe and about 2.5 in China. My kids, one Millennial and one Gen-Xer, buy almost everything online, while I go to the outlet mall once in late winter and once in late summer and buy off the sales racks, but I am not buying very much.

So retail is not the place to be. In the short-term in some locations there is money to be made, but long-term? How many conferences and seminars have you seen advertise “How to repurpose a retail mall, medical mall, senior living, schools.” People need to have somewhere with a roof over their head and they need to work somewhere (although more and more do so remotely) and Amazon has to ship their goods from somewhere. But folks do not have to go to the mall. They will however drive half way across town to get to Starbucks (or Dunkin’) and some fast food places. I do go to Longhorn on occasion, but only five to six times a year. The others you can have. I will go to Hannaford, get fresh veggies and a nice piece of fish, go home and cook it. Yes, I do pizza a half-dozen times a year and even Chinese, but some families eat out a lot.

So, patterns are changing in some sectors quickly and in others slowly. Where it is all heading is not

quite clear. Millennials are not buying houses reports The Wall Street Journal and New York Times. Well yeah, half of them are 14 to 21 (actual cohort is 14 to 31) but many/most don't even drive, so why would they buy a home? Chris Potter and John Burns have written an excellent book, Big Shifts Ahead, a demographic study that looks at the 2010 Census Data (along with more recent numbers) and puts them into 10-year cohorts. This is very informative – do yourself a favor – buy it and read it - not once, not twice, but three or four times.

At a recent board meeting (I am an outside director for a family real estate trust), the chair asked us, "What keeps you up at night?" Right now, it is North Korea. If those rascals somehow drop a missile on Japan or South Korea we are going to have to respond. This is an outlier, the markets will plummet in this instance. They may bounce back, but they may not. The U.S. and China need to get on top of the situation now! There are other hot spots - all geopolitical, but this one is the most volatile.

So, as we enter the end of 2017, we ponder events three-quarters of the way across the globe. Of course, in real estate we have to think about hurricanes in this hemisphere as well. Never a dull moment in our sector. After all, all real estate is local.

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