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# Labor day has come and gone – We are back to business for a busy fall - by Bill Norton

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Bill Norton,
Norton Asset Management

Labor Day has come and gone – we are back to business for a busy fall before the snow flies! Actually, we saw no dog days of summer this year, as activity motored right along throughout the summer. That does not mean a lot of deals got done, but there was a great deal of conversation! Deals are more complex (as we approach the end of the cycle). Everyone has issues. In the last 60 days, we have seen several pulled as they simply no longer "pencil out." One example is Dolben's 125 apartment project in the former Employment Security building in Concord, N.H. The final "ask" for the city to split the $7 million overrun was too much. The city declined and it is back to the drawing board.

Given the current hyper-inflated cost of construction, many "new" projects, as well as those with considerable rehab, are too expensive. Thus, new space is not being added to the inventory. Normally, this causes a pinch point or bottleneck where vacancy rates drop below 5% and developers start to build. Vacancy rates have been below 5% in housing and, thus, there is building of both single-family and multifamily going on – even with record high construction costs. Vacancy rates are not that low for office, manufacturing/high bay or retail. There are select projects in the sector – what are known as "build-to-suits" – where the tenant or user is known, but as the economy has slowed over the last 12 -18 months, and there are fewer projects coming in the pipeline. This is difficult to see from the street as there is a definite lag effect. It takes at least a year to conceive a project, secure financing, get approvals and permits and then start to build. It takes another year (at least) to build and once the front-end soft costs have been spent and the site purchased, it is hard to stop, or even pause, even with double-digit increases in construction costs. So, some projects may be getting to the tipping point, where, when completed, they may not lease up for quite some time.

Thus, even though buildings are going up, the longest recovery in modern times has been tepid (2±%, barely matching inflation) and it is now sputtering. Cheap money has kept things going. If (or when) that changes, then things can turn dicey quickly. Add in an inverted yield curve and "traditional" economists begin to really worry. Add in Mr. Trump and his aggressive tariffs policy (ostensibly seeking to get China to be an honest actor on intellectual property matters) and there are many tripwires, any of which could (not will, but could) set off a chain reaction.

So, as fall approaches, the hurricane season involves more than giant storms out of the Atlantic. Oh, then there are/were those 20+ Democratic presidential candidates - it is political funny season – the Chinese are smiling because we here in the U.S. are, in fact, living in interesting times!

Lastly, we are seeing daily impasses in government – both at the state and federal level – legislatively passed budgets, gubernatorial vetoes, continuing budget resolutions… increasing debt. An article today stated that at the current pace, the national debt will exceed 100% of GDP in 2028 for the first time since immediately after World War II (1946).

China has definite aspirations to become the world's largest economy. The U.S. has been, and continues to be, sputtering. Europe is wobbling. The global markets, as we have known them since post World War II, are changing. This has both short-term and long-term consequences. To maintain our secure and dominant position, we need to kick-start productivity ASAP to 3.5% - 4%. Otherwise, we are treading water in place as others march on by. Alas, regaining such productivity levels is a daunting task, one that very few of the would-be presidents have thought about, or are prepared to address.

Bill Norton, CRE, FMA, Hon. AIA NH, is a principal of Norton Asset Management, Manchester, N.H.