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2019 in review: Retail market and the demographic shift are the two major factors at work - by Bill Norton

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Bill Norton,
Norton Asset Management

Sitting down to write this column, I am not sure where 2019 went. A year ago, the stock market hiccupped on Christmas Eve. It ultimately bounced back and even hit new highs, but the volatility has added further to the argument that we are late in the economic cycle and thus, some kind of correction or reset is due. In fact, more and more pundits are lining up to say it will come in 2020. Now, how much of a correction and for how long is anyone’s guess (myself included).

The Presidential election will play in this. Last year’s tax-cut was a bust. We now have $1T deficits annually. If the economy softens, even a little bit, Donald Trump’s grip on the White House may slip... even though the cast of thousands of democratic candidates can’t agree on anything.

Ironically, some of the global watchers of capital markets are saying interest rates will go lower. As a pretty soon-to-be retiree, I am not sure whether that is good news or bad news. The argument is that there simply is more global capital than there are opportunities to invest it. By default, the U.S. continues to be seen as a safe harbor (not due to our stellar economic performance, but because the EU is stumbling and bumbling and China remains a big unknown in terms of economic transparency). 70% of global economies (nations or states) are in recession. This will correct but the emerging nations will bounce back faster than the big leviathans. The current expansion of the U.S economy, 10 years and counting, has been the longest in recent history, but it has been tepid. Current productivity increases are barely matching inflation. In fact, by some measures we are backsliding.

In the commercial real estate sector, two other factors are at work. First, retail is definitely moving to Amazon, Wayfair and other online delivery businesses. All retail spaces are under siege, especially the sub-regional malls. What do you do when you have a closed Bon-Ton’s, a closing Sears and a soon to close JC Penney? Without the foot traffic of these big box anchors, the inline merchants are starving. Not a pretty picture.

The second impact is the demographic shift. The Baby Boomers are retiring and many are moving south. Often, they are taking their wealth with them, as well as their time and talent. It is a brain drain of sorts. We are working on 2 and, maybe 3, CCRC (Continuing Care Retirement Communities) projects. But the biggest issue/concern is where will they get the labor? With an unemployment rate of 2%±, who wants to do such menial jobs? Even raising wages to $14/hr - $15/hr will not fill the gap and yet we are rapidly moving toward cutting off immigration which has been the source of such workers for generations.

The shortage is further compounded by the mismatch between young graduates, both high school and college grads, and the jobs available. This is a systemic problem, one difficult to fix and very difficult (impossible?) to fix quickly. Young people in America today are going to live to be a hundred (or more). Why is it that they should know what they want to do for the next 50+ years at the age of 18? Last century, you went to college, graduated, got a job and worked in a steady career. That model is not the norm anymore.

So, for an aging commercial real estate guy, I am focused on getting through the impending economic correction and seeing what comes out the other side. Beyond that, I focus on understanding the big picture and how the demographic shifts are going to redirect the demand for commercial space of all types. It should be interesting.

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