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At this point we simply do not know how this is going to unfold - by Bill Norton

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Bill Norton

I have been writing this column for 20+ years. Some weeks it is easy, many weeks it is not. Mid-Pandemic, there is much to think about, but difficult to write about since at this point we simply do not know how this is going to unfold. Like it or not, we are waiting for the other shoe to drop.

Like many of you, I get a handful of Pandemic, PPP, and CARES Act updates daily. Some are quite good, but some are “cut-n-pastes”. There are also daily webinars. Again, some are good and some are not so much. I have been on a couple myself and mostly feel it is too early to prognosticate.

Just as the stock market is seeing volatile gyrations, there will be similar ups and downs in the five sectors of the commercial real estate markets. Hotels, restaurants, and hospitality are in the dumps and will be for several years. The dramatic crash in “due to foreclosure” was bad enough. But corporate travel likely will not be back for several years, if ever. (Note: there are those who feel like post 9/11 or even the Great Recession, that we could return to normal quite quickly, perhaps 12-18 months. They may be right, but I think it is a long shot). Beyond corporate travel, will casual travel and regional tourism rebound? Can smaller facilities stay open with 30%, 40% or 50% occupancy? If there is not a second wave or a smallish, short spike, and there is a vaccine, then maybe... Regardless, only serious contrarians are investing in this sector in the next year or two.

Office... hard to say. The work-from-home paradigm is finally here. Some firms will embrace it, but many will not. Commercial real estate is an “eyeball to eyeball” business as one of my early mentors used to say (last century!). This has been changing over the past decade. The Pandemic accelerated things. Not all workers are self-starters, or motivated and organized to go solo/ remote. In time, there will be a sorting out, especially if there is a second wave or spike that keeps us in work-from-home mode. Different industries will be impacted differently. Some will react and some will be proactive. Think of those branch banks that have been drive-up only. Add to that the increased shift to online banking. Do you really need all that bricks and mortar? Maybe smaller drive-up only facilities are the future. I think of Chase in New York City (NYC) that has been building (leasing) new walk-in branches in every hot neighborhood (followed by Bank of America). Especially

in NYC, this may not prosper. Some would say that branch banks are more retail than office, but many of the older branches were “full service” with retail and commercial lending staff. We have an 8,000 s/f stand-alone branch for sale right now. It was a small community bank headquarters, which got absorbed into a bigger community bank, which got absorbed...now part of a very large national bank. Pre-Pandemic, the big bank had decided to close this branch and move into a 1,500 s/f high visibility retail center. What is a branch bank when it is not a bank anymore (and zoning does not allow drive-thru restaurants)? Best gas station, financial advisors, dentist, light medical, professional offices - engineers, lawyers, accountants etc. Time will tell.

While I would not want to be an owner or investor in Manhattan office towers, smaller, more suburban properties will likely morph into the next new thing. Some tenants will take more space to achieve social distancing. Some will keep the same footprint and stagger staff in the office and some will shrink. The point is that not everyone will or can work remotely, thus office is not dead. Further, office leases are often long-term, one study suggests medium-term is about four years and three months. So, firms will have time to figure this out.

Retail was mentioned above - big changes here. There was way too much retail before the Pandemic. COVID-19 is simply the catalyst that set off a chain reaction of closings, bankruptcies, downsizing and major moves to on-line only. Our economy is 70% retail, consumer and “service”. It is overinflated 10+ years after the Great Recession and due for a correction. The Pandemic just came out of left field but was all it took to knock this sector on its keister! 25,000 retailers are likely to close. This will be tough on developers of “mixed-use” projects where local zoning requires retail and commercial on the first floor. I worked in NYC for a large client for a number of years. We sited three clinics in welfare-to-work offices in the Bronx. There were dozens and dozens of new multi-family buildings, 50 first floors. The demand for apartments was so great, Oprah’s could still make a good profit with few or no ground-floor tenants!

Multi-family? Well, in suburban markets, probably no change. This will include smaller urban locations as well. But big cities, especially NYC, are likely to see a big re-set. This will be by employees/workers themselves, as well as employers. Six to 12 months from now, when the dust has settled (hopefully), we will look back and only then be able to measure and ascertain the full impacts. To date, we are patting ourselves on the back for getting through this (so far) but, retrospectively, the economic turmoil is going to be profound. We have (and will) throw trillions of dollars at this, but someday someone is going to have to pick up the tab - ugh! 100,000 people in unemployment in New Hampshire, perhaps 130,000 at the peak.

Best case 2, 3, 4 years to dig out from under this mess. Alas, in adversity, there is opportunity and that will be true in commercial real estate. There is an abundance of cheap money out there fueling refinancings and single-family home buying. For commercial real estate, it is quite simple: Buy low! Sell high! Collect early! And pay late!

Be safe and stay safe until there is a real vaccine.

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