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Industrial and multi-family markets are alive and well, jury still out on retail, office and construction - by William Norton

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Eight weeks after vaccination (I had the J&J one-and-done), things are opening up. Despite a cool spring so far, there is much activity in the office and away from work, I have played 13 rounds of golf, walking and carrying. Tuesday night league and Thursday day league are going well (alas it is early yet). I cut the lawn for the first time last weekend and the vegetables are in the garage ready to be transplanted to the next size up pots. Only a cockeyed optimist or a fool would put them in the ground in central New Hampshire before Memorial Day!

On the business end, commercial real estate is alive and well - some sectors anyway. We have done or are doing a half-dozen high bay/warehouse “industrial” deals and are in the midst of three multifamily deals. Office is quiet and will be except for a few must-do renewals but they are likely to turn into one or two year extensions. We simply are not far enough out of the woods with COVID-19 to truly understand what the future office landscape is going to look like.

On a monthly call with industry folks some are eager to get back to face-to-face office operations (probably 20-25%) while others are easing into a hybrid model of one or two days in the office and the rest of the week working from home (maybe 30%). Others, including some law firms are okay with work-from-home, especially for experienced older workers who do not need coaching, mentoring, OJT, or other apprentice like time. The other side of the coin is the younger workers who need and want mentoring, coaching, OJT and teamwork. These folks do need in the office and face-to-face time at some level or degree as Zoom, Microsoft Teams, etc. have their limits.

Thus, office leasing will remain subdued for a year and perhaps quite a bit longer. One participant from the medical sector stated that they have already transitioned most of their back office and administrative folks to permanent work-from-home, albeit with annual reviews of productivity. In the clinical environment they mostly have to be face-to-face. Here in the Northeast where competent healthcare professionals are less than an hour away, telemedicine is not expected to take off dramatically. However, as billing and compensation rates rise for “remote services” look for more of this - pushed by the providers as it can mean less space, less staff and more “visits” daily. I really do

not have to go sit in an exam room for my urologist to tell me my PSA went up, went down or stayed the same and no need to park me in the waiting room, escort me to the exam room, take my temperature and get my weight. So I expect more of my future medical visits will be by telemedicine but not all, maybe 50% in five years. Now if I lived in rural Wyoming it would be a different story.

Retail is “soft”. That is a euphemism for doing very poorly. There are three or four things going on here. First, the pandemic shut down malls and retail casual traffic. Some folks learned that much of that “traffic” did not translate to sales. Second, online finally got the boost to establish it as a permanent serious contender. My 35 year old daughter who chose to come home to New Hampshire to camp out with dear old dad when her Washington, DC office was closed down with everyone working remote, had UPS, FedEx or Amazon coming almost every day. Even dad, the dinosaur, ordered things online! Who said you can’t teach old dogs new tricks!

Sitting through various webinars listening to folks who work in the “Retail Space” I came away with a perception that at least a quarter of previous retail is dead gone and buried! Fifty percent will re-emerge in some form and the remainder will be new concepts. For restaurants, perhaps 40% will not survive once the entire COVID-19 stimulus funny money dries up. The balance will push take out, outdoor dining and spaced-out bar and table layouts. I sense a strong pent-up demand for eating out for younger and middle-aged cohorts but the Baby Boomers are more cautious, mostly choosing takeout but less eager to sit in a restaurant or a bar. Of course a year from now, post vaccinations, the herd effect, no significant variants, likely booster shots, things may swing back closer to pre COVID-19 norms. This is all to be determined as things play out.

As Jamie Powell, chair of the Fed, said on 60 Minutes a month or so ago, no one knows what \$1.9 trillion gets you - lifting the U.S. economy for six months? Nine months? Twelve months? more? This is all virgin territory aka TBD! While all the economic models show little or no inflation in the near-term (one to two years)... have you bought any gas, lumber, or tried to hire any tradesmen lately? Working and living in the built environment arena of commercial real estate and development for 40+ years, what keeps me up at night is the potential for the hyper price increases of construction (and renovation) materials and labor to suddenly stall the overall economy. This sector - construction, development, DIY, and renovation equates to 20-22% of New Hampshire GDP. If it stalls (how many \$72 sheets of plywood do you want to buy? Or will you build that 200 s/f deck \$999 at Lowe’s last year and now is over \$3,300? How about paint at \$52 to \$70 per gallon?

Prices should level off and retreat but they are unlikely to return to pre COVID-19 levels. Wages too are under pressure. Forget the federal unemployment, underemployment, and people looking for job numbers. Try to hire someone! Those who want work, even menial and starter jobs are mostly unskilled and those who are educated and supposedly “skilled” do not want to work the hours and days (nights) you need. This significant mismatch is a serious problem, one that puts significant drag on the economy.

Now that Trump has retired to Florida, the political mess has quieted some, but the hard and fast lines in the sand remain. It is hard to pump furiously to keep the current economy afloat and have time left over to address the structural, cultural and racial issues. The concern is we might focus so

much on the immediate that we win the battle and eventually wake up to find we lost the “war”.

But has the bumper stickers say “One Day At A Time”. We need to survive 2021 so we can tackle 2022. For commercial real estate the next 6-12 months look good. Alas, this real estate journal needs to sell advertising space so I cannot opine today on the current housing sectors. Both single family and rentals are hyper inflating. Here in the South End of Concord, N.H. we had our first “scrape”. A home was purchased to be knocked down and a new home is being built. This will be a \$450,000 plus house in a \$275,000 to \$300,000 neighborhood. I am thinking this bubble is ready to burst. While I have seen this movie before (at least four times in 40 years of business) I am not smart enough to predict when. As the warning says “Past performance is not a predictor of future results!” All I can say is it should be interesting....

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