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## **In my world of commercial real estate, there is plenty of liquidity chasing too few deals - by Bill Nortron**

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Halfway through July and things are humming - not back to pre-pandemic levels, but getting there. We are unlikely to get back 100%. COVID is a game changer - working from home being the biggest change. I am skeptical that large cohorts will insist on working from home. We (homo sapiens) are social animals. A recent Washington Post article stated that 83% of CEO's want employees back full-time, but only 10% of workers want to go back full-time! IBM just leased 150,000 s/f at Crosspoint (former Wang Towers in Lowell, Mass.). They are consolidating 16 smaller local offices. The answer is somewhere in the middle - I am guessing 70% - 75% back in the office at least 3 – 4 days per week.

One concept, which is called “hoteling”, is desk or workspace sharing. It is a “hybrid” where workers can be in the office some days (presumably to some schedule) and work from home others. This would reduce weekly commuting time, but also facilitate collaboration, team building, etc. Some managers think they can reduce the number of desks and offices and shrink their office footprints. But I think back to immediately after 9/11, no one was going to work above the third floor ever again! That lasted about nine months. Again, following the Great Recession, within two years office space was full. Frankly, there is a lot to the old adage “out of sight, out of mind”. My daughter is working remotely here in New Hampshire for her Washington, DC job. She misses her co-workers, but (there is always a but), she likes the ease of turning on the computer at 8:55 AM without a 45 minute subway ride.

In adversity, there is opportunity. The opportunity for the U.S. employers and workers is to reconsider what “work” is, how productivity is measured and how it should be compensated. I have been self-employed for more than 30 years. I set my own schedule. I am a people person and thrive on face-to-face interaction and “live” negotiations. I adapted to Zoom and MS Teams, but do not love it. It does make sense for many things but, falls short as one size does not fit all.

Another article (from Bloomberg) states “expect post-pandemic productivity boost! Productivity is likely to be choppy over the next year”. For every action, there is an equal and opposite reaction.

Thus, we should expect some significant bounce and momentum for a couple of years coming after the pandemic. Or should we? First, are we post-pandemic? The delta variant, lower vaccination rates, reluctance for wearing masks, surges around the globe... All of these indicate we are not out of the woods yet. Secondly, the economy is humming largely due to trillions of dollars of stimulus, even while much of the appropriated dollars have not been spent, there are still trillions out there (v. billions). As Jerome Powell, Fed chair, said on 60 Minutes a few months ago, no one is sure how much “bounce or lift” a trillion dollars gets us these days!

In my world of commercial real estate, there is plenty of liquidity (excess cash) chasing too few deals. We have all read about the red hot residential markets, but we are seeing some of that crossover to commercial properties too. This is especially true for high-bay “industrial” and multi-family. Even retail is being adapted to new uses. I just read an article about a Bloomingdale’s being converted to 1,100 self-storage units! Low interest rates drive down cap rates (desired rates of return), thus increasing prices. On top of this, construction costs are hyper-escalating which has folks thinking that they should buy existing buildings. With 40+ years in the business, this does feel like a “bubble”. But having been through five real estate “cycles”, I cannot project when things will re-set.

A residential broker friend sent me an email telling me she just listed a house identical to mine for \$525,000 but it was likely to sell for \$550,000 - \$560,000. My response was – so where would I go???? You cannot sell high and buy low in the same market...

So, we should enjoy this immediate period of optimism, getting back out, eating, shopping, even some travel (I am flying to Denver next week to visit my son). The headwinds or clouds on the horizon are a resurgence of COVID (in some form), ongoing rancor and partisan fighting in Concord and Washington, and the gap between the wealthy and working folks. None of these are quick fixes - all three simultaneously are a heavy lift.

It appears pricing for most construction materials (and labor) may have peaked. This is a good sign because the construction, renovation and do-it-yourself is a big piece of our economy. If/when that freezes up, it will be a major drag in the overall economy. Nearly all those recent sales at super-heated prices carry mortgages, most of which require two incomes - lose one of those incomes - even for six months - and things begin to unravel. Leverage (debt) is a good thing in moderation and a hard lesson when overdone.... Enjoy the summer, even while we are recharging the aquifers!

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