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2021 has been gang busters! - by Bill Norton

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I am in Stowe, VT at the Trapp Family Lodge on a mini vacation, so this New Hampshire Spotlight may be slightly crunchy! Seriously, the hospitality sector has been able to come back strong this summer throughout New England. Alas, with the Delta Variant gaining traction, innkeepers and restaurateurs are nervous. They struggle to get workers and guests are unsure as well. A year ago, Vermont had a mandatory 14-day quarantine. Today, unvaccinated people have to wear masks. There is a tour bus here from Tennessee for the foliage! (Oops, too early). Listening to their (often loud) conversations, several feel this pandemic is not serious. I could not disagree more. We are not out of the woods yet and we are now entering the “regular” flu season. Flu shots, boosters, third shots... ugh. I have no hesitation with the vaccines. My father was a doctor who treated polio patients in the 1940s and 1950s. We were very eager to get the Salk vaccine! One piece of hospitality is tourism. Bus tours are one segment, but air travel is perhaps a bigger piece. However, air travel is a big stressor these days.

Beyond the clouds overhanging hospitality, Delta Variant continues to challenge the office sector. At the beginning of COVID, about half the office leases in the U.S. were three years or less and the balance four years or more. Landlords kept telling long-term tenants to keep sending their monthly rent checks. Those coming up for renewal had more leverage. The group in the middle were taking a “wait and see” approach. Alas, they are still waiting in order to see how Delta plays out. Most businesses want workers back full-time. Many (most?) workers prefer the option to work from home some, or all, of the time. A key question is whether a hybrid, with shared “hoteling” workspaces, will reduce office square footage.

There is no question that the pandemic has more, or less, forced the issue on “work from home”. A big factor is “the commute”. Working from home full-time, or even part-time, eases this burden and improves the employees’ quality of life and, perhaps, their work performance. Here in Vermont, with continually improving Wi-Fi and internet speeds, more and more people are availing themselves of this option.

A small, family-owned firm I work with (15 - 16 FTE’s) “pivoted” to remote quickly, but as they are

primarily in the housing business, remote has its limits. Most of the employees were designated “essential” and came back at least 2 - 3 days per week. Last month, because of our daily interaction with residents, especially the elderly residents, we implemented a mandatory vaccination policy. I think this will be the new normal.

2020 was a difficult year for commercial real estate, but 2021 has been gang busters. Like residential, we have seen fierce bidding and over-bidding. Multi-family properties are trading like hot cakes! Second is high bay/industrial due to the high demand for distribution. There continues to be lots of capital available to invest. Banks are lending. Interest rates are historically low and will remain there (once they get this low, it takes a while for the trend to reverse).

Inflation is on the horizon. Despite what you read or hear, your daily experience tells you that prices are rising! Gasoline (\$3.29/gal); food; paint (\$26/quart!); and the list goes on. In April, pressure treated 2x10's were \$8.55/lineal ft., while 3"x7" granite was \$6.48/ lineal ft.!!! I was repairing some of my raised beds in the garden, so I went with granite! While it is much heavier to work with, it is permanent. It came out so well that I decided to do the last two beds. In August, the 3"x7" granite was suddenly \$9.98/lineal ft., a 50%+ increase! Lumber and building material prices are peaking but will not return to pre-pandemic levels. The \$24/sheet of plywood that went to \$72/sheet will not drop to \$24/sheet, more likely \$36 - \$42/sheet.

Housing rents are up, up, up. Housing prices are up. Utility cost are up. And property assessments are up, which means real estate taxes are up...but we don't have any inflation! These elements come mostly from the COVID pandemic. The economic stimulus to offset the crushing economic declines appears to have worked so far. But as the Federal funny money is withdrawn, it is not clear to me how things settle out. There remains a large gap between workers with skills and employers with open positions. Where this hits the bottom line is productivity. Maintaining, or improving, productivity is the key to economic expansion which is critical to supporting an aging population. There are fewer people working to support/subsidize a growing cohort of retirees (yours truly included!).

What keeps me up at night is whether the fiscal and monetary policies from Washington can keep this economic beast fueled. The global supply chain disruptions are one example. A shortage of new vehicles well into 2022 because we can't get microchips? Ultimately, that should lead to some “re-shoring”, bringing production back to the U.S., or at least to North America. But what about the robots that are still spitting out auto frames and cabs? Do they shut down because they don't have microchips? Supply and demand kicks in – new and used car prices are crazy. One dealer told me that 90% of his production allocation of vehicles is sold through the end of the year.

I am thinking of the young couple that moved in around the corner. In my opinion, they over paid for their house by \$50,000 (20%), they have a new leased car in the driveway, their “occupancy costs” (mortgage, real estate taxes, utilities, insurance and maintenance) have increased 35%. If one of them is furloughed, or their hours are cut back, they are toast! How many such households are there? Another neighbor told me she is refinancing (she just refinanced in the spring!). Does this sound familiar? My daughter is eagerly trying to lease an apartment in Washington D.C. Due to

Amazon's new East Coast headquarters, the demand far exceeds the supply, driving up prices. I am telling her to not overreach (she works for Uncle Sam, so she does not have employment risk... I think).

My hope is that the Delta Variant is manageable and we get through the winter with much less disruption than last year. I also hope that the President and the Democrats do not overreach and blow things up in D.C., potentially lose the mid-term elections and throw us back into gridlock. Like it or not, what they do in D.C. affects us. Think tax rates on income and capital gains. There is talk of eliminating the 1031 Tax-Deferred Exchange, which would have significant effect on commercial real estate transaction volumes. If it weren't for climate change and rising sea levels, I would move to Tahiti! Enjoy what, hopefully, will be a beautiful fall here in New England.

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