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Observations of an East Coast road trip: From Manchester, NH to Boynton Beach, FL and back - by Bill Norton

April 01, 2022 - Northern New England



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I just returned from a two week road trip to Florida. I picked up my sister in Baltimore (who cannot fly due to a medical condition) and off we went, driving through the Carolinas down to Boynton Beach (just below West Palm Beach). I travel the East Coast routinely as I have two partnerships in Raleigh, NC, but my sister had been isolated by COVID and was taken aback by the traffic and all the hustle and bustle. I had to explain that the Sunbelt is hopping. Coming out of the cold, dark northeast it is quite a change. Before departure, I went to the basement and pulled out my golf clubs which had not seen any action in many months!

While housing throughout the country is in very high demand, coastal properties are even more so. The pricing was dear! The buying and selling was intense and the wealth effect was noticeable. As a former geography major, the demographics of the two coasts v. the Heartland is interesting. The Baby Boomers are spending their wealth as they age out and have to take RMD's (required mandatory distributions). On the Florida east coast, there are many Canadians as well. On this trip, I did not meet many folks who were losing sleep over 5-7% inflation. When I filled up in New Hampshire, gas was \$3.35 a gallon; it kept going up through the first week, peaked and drifted back down some. We paid \$4.69 at the peak and then \$3.74 in Baltimore. I suspect some White House staff were jawboning the oil companies to back off the gouging!

Getting away is always energizing and allows one to see things from different perspectives. The "war" in Ukraine is ongoing and discouraging, but it is a long way away. The ability of Homo sapiens to fight one another is not new. It started by eliminating the Neanderthals! Having recently read *The Great Influenza* (J. Barry) which told the story of the Spanish Flu during, and after, the First World War, it is clear that while we as a species have learned a great deal, we are far from mastering our environment or our global politics. Having many hours of windshield time, it struck me that 7+ billion Homo sapiens may be too many for this planet to continue to accommodate. Economics, both personal and national, are one thing, but the quality of life and the overall inequality is staggering.

The current parties and politicians in Washington, D.C. are all about talking and pontificating, but very little is being done to truly address the fact that the top 1% here in the U.S. have as much wealth as the bottom 90%. The disruption and resets that will emerge post-COVID pandemic will further exacerbate things. Young people in school today are going to have a three-year hiccup in their education and growth, which many will never recover from.

Having just driven 3,500+ miles up and down the East Coast, I had occasion to stop in many fast food enterprises. In one Wendy's, the computers went down and not one staff member could make change! They also could not figure out how to take orders and make the burgers! In a Burger King, there were nine staff (that I could see) and one trainee on the front register, with two people trying to teach her as 10+ parties lined up and waited to place an order (I left). Even with the latest computer terminals (with only pictures and very few words), three times my order was wrong. One Panera took 21 minutes to make a turkey sandwich. This is not just tourist bellyaching, there is a serious disconnect when giant corporations cannot develop a system that works repeatedly and consistently. This is known as productivity.

In my world of commercial real estate, I look at the value of the property (land, building, permitting, signage, access, etc.). While these costs have been going up and up, they are small compared to the costs of running the business. Many, many years ago (the late 1980s), clients would complain about \$20 per s/f rents (gross, back then) and then be puzzled when I pointed out that typical staff were costing \$110 per s/f. The delta today is even greater. What is spawning this thinking is that after almost two decades of little or no inflation, we are now trying to put the cork back on the bottle as inflation moves from 5.9% to 8%. The Fed announced a 0.25% increase in rates and signaled they will continue those for quite some time, to try to drive inflation back down to the 2% level. Do we as a nation know how to deal with inflation?

Do we understand what a sudden surge in costs does to working households? Having just printed trillions (with a capital T!) of dollars of stimulus and recovery monies, do we have confidence that we will get through this rough patch and get back on solid ground? Most folks that I talk to (and they are many) do not seem too concerned. I think that comes from the “too big to fail” school of economics. While I do not see a deep depression ahead, I do see a lot of pain and suffering, beginning with families that are buying housing (or renting) at historically high costs. We have seen this before.

I just got my natural gas bill for February. It was \$357 and I was gone for 10 days. It was \$1.95/therm, a doubling in three years. I can pay it, but I look at three younger couples that have moved into my neighborhood who reached very, very high to get into a house after enduring bidding wars. I wonder if they may be over-extended. Thus, I frequently hear myself, and others, say I am glad I am 60 (or 70) and not 40! Alas, my son and daughter are in their 30s and I sympathize with their angst.

The shortage of housing units is acute and cannot be remedied quickly. This will keep prices high and force people to pay more for their housing than they would like, or what economists say is “rational.” The sudden shortage of workers, as we emerge from the COVID pandemic, is puzzling in many ways, but it will result in higher wages for those who choose to work. However, the current numbers do not add up. There are disconnects and that is a problem. Where are we going to get millions of nurses or teachers in the next several years? I pondered these things as I was driving up I-95 and seeing development everywhere in Florida, Georgia, South Carolina, North Carolina and Virginia. Development in the Sunbelt is easier, costs are less, utilities are less and, thus, housing is less. Young people are decamping to these more affordable states in serious numbers. This migration has been going on for decades, since I was a graduate student at UNC back in the 1970s. The pace has picked up, I think, but the trend is the same.

On this trip I met several “snow birds” who own two or even three homes. Many such homes are empty in the north while they winter in the south and then it reverses as they summer in the north while their southern homes are empty in the summer. It is luxury to some degree but a wonderful lifestyle if you can afford it. Unfortunately, those homes are empty half the year while we have a national housing shortage of millions of units.

One final observation, I was amazed at all of the retail space being built in the Sunbelt, especially as

I passed dozens of Amazon and other distribution centers, each hundreds of thousands of square feet. This disconnect has yet to play out. It was driven home by all the trucks on I-95, many with the Amazon logo, as well as many others, along with the “logistics” haulers and, finally, the containers coming and going to the ports. There is lots of “stuff” on the move to you and me, which begins to support all of the self-storage facilities that are popping up because apparently many of us are buying more stuff than we can fit into our home(s). It was a fascinating road trip leaving many more things to ponder as spring arrives.

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