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## **The next six months are a critical time in which to help restore consumer confidence in the market**

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It is difficult to be the New Hampshire "expert" for the New England Real Estate Journal's Fall Preview when the markets are in such turmoil and dropping 700 points one day and rising 900 points the next. Banks are struggling and the residential sub prime mortgage mess is spilling over to the commercial side. Just how far no one can say.

Local banks still have money to lend and many local and regional businesses are doing well. "Well, you got trouble my friend! Right here, I say, trouble right here in River City. Trouble with a Capital T...". The Fed and the Treasury Secretary are pulling out all the stops, which is good. The absolute worst scenario is to do nothing! Witness Japan 18 years ago. The Japanese government stuck its head in the sand and just refused to deal with all of the big loans that the banks held. It got so bad that depositors paid the banks, mostly the Japanese Postal Service, .25% interest (i.e., they got minus .25% on their savings).

But the U.S. is not Japan and hopefully the government's actions will first stabilize the markets and then shore up confidence of investors and the public. To quote Jeff Thredgold of TEA, "Whether these aggressive monetary policy actions will be effective in curtailing what is now a global financial panic is unclear. However, these actions, combined with other aggressive moves by central banks and the US Treasury (and equivalents) around the globe is a far cry better than simply sitting back (as some would strongly suggest) and letting financial markets work things out."

There is no one contesting that we are in recession. The big question is how long will it last. This will not be a quick bounce back (one or two quarters). There are many elements of the global financialization that are coming unraveled. The press has focused on the US stock market, but Russia, Europe, China, Hong Kong, Japan and Australia are all correcting. We have had a good run since 1994, so a correction is due and to be expected. It is here and will be with us for a while.

Again to quote Thredgold, "Credit markets are all about confidence...confidence that if you lend or invest money with the investment bank across the street or "across the pond" you will get your money back...confidence that if you put money into a money market fund or other short-term investment that you will be able to get your money back...confidence that if you buy a bond issued by a major corporation or government entity that you will be able to sell that investment later should you choose to in a viable and liquid marketplace...It is the lack of confidence that is a grave and major threat to the global community today."

What is going on in commercial real estate? On the leasing side, things have ground to a halt. People need that confidence restored to make decisions, commit to space, sign leases, move and be productive. We at Norton Asset Management moved our office in September. The physical move went well, though we have had several digital and network issues. We will work them out, but we help at least one client move every few weeks and expect the unexpected.

But others are not sure what to do. Keep the same space? Downsize? Expand? These have been challenging questions for the past four or five years, but now there is so much uncertainty. Few want to pull the trigger. I expect this log jam to last at least until after the first of the year.

On the buy and sell side, buildings are trading but credit terms are tightening, appraisals are getting more conservative. The days of easy money and high leverage are over. The pendulum is swinging back toward more historical norms (cap rates of 8-12%), max 80% financing and stronger debt/coverage ratios, etc. Users will dominate and investors will be on the sidelines until they have a sense of where the bottom is.

The challenge for New Hampshire and all of New England is that there is no electronics, defense, computer, telecomm or .com boom on the near horizon. For 40 years there have been booms, most often emanating from Boston and Rte. 128, which have rippled north to New Hampshire (the proverbial rising tide floating all boats). Bio tech does not create lots of jobs and the green revolution does not have deep roots in New England or anywhere else for that matter.

The next six months will be tough, especially if we have a long, cold and snowy winter. But the actions in Washington and a new president should be able to stimulate activity, restore confidence and get America back on track again.

Bill Norton, CRE, FRICS is president of Norton Asset Management, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540