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A fall preview of the commercial real estate market in New Hampshire: Not too much change

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This wonderful fall, indian summer weather is masking the eventual arrival of winter (written before the rains came in early October). Soon we will be hanging up the golf clubs and bringing down the skis! Unlike the rhythmic change of the seasons, real estate markets are much less predictable.

The regional economy is bumping along, not sputtering nor accelerating. However, billions of dollars are available to invest in and finance commercial real estate. This has created significant velocity in the real estate markets. This velocity has been sustained for several years. Baby boomers have lots of money to invest to fund their retirements. Corporate profits are approaching records. So excess capital affects markets.

Recently, Jeff Thredgold, economist and president of Thredgold Economic Associates, outlined a correlation between Gross Domestic Product (GDP) and the Dow Industrial Average. Thredgold reports that when the U.S. GDP approached \$1 trillion, the Dow hit 1,000. When GDP hit \$10 trillion, the Dow hit 10,000. Soon the U.S. GDP will hit \$14 trillion and the Dow is at 14,000. The correlation of the GDP and the Dow since 1960 is very tight. When the stock market is strong, investment capital will flow to stocks. Commercial real estate will attract capital as well. The relationship between these two asset classes becomes more complex. For several years there has been excess capital, domestic and foreign, chasing too few opportunities.

If the Thredgold model continues, a steady expansion of the U.S. economy will lead to a rising Dow. One relatively recent factor in commercial real estate is the rapid turnover of properties (and mortgages). Properties, even large commercial icons, have been selling frequently and for increasing prices. REITs have been selling providing good profits to investors.

However, in N.H., we have limited investment property. While there has been some REIT investment activity, our 1.3 million population with 600,000+ workers yields a relatively thin inventory of commercial properties. N.H. continues to lead New England, but the margin of that lead continues to diminish. It takes employees to fill buildings and thus employment growth is critical to keeping commercial real estate strong. It is no secret that New England along with the entire U.S., continues to lose manufacturing jobs. Much of this is due to productivity gains, and the balance due to the combination of off shoring and foreign competition. There is no near term change in this situation. In fact, the slow down in U.S. manufacturing since the Tech Wreck of 2000 has allowed foreign competitors to gain strong toe holds in many SIC codes. The capacity of foreign manufacturing will grow steadily over the next decade.

Our daily experience is that our inventory of industrial and manufacturing buildings is migrating to warehouse and distribution. Of course this only applies to high bay buildings (minimum 18-20 ft. clear floor to ceiling height).

So how are we doing in N.H.? Not much change. The office and industrial sectors are stalled. Retail

has cooled off. Multifamily, condos and even single family residential have gone quiet, largely impacted by the adjustable rate mortgage mess. While lenders feel the need to be cautious, they are swimming in capital and are willing to make loans with aggressive terms if the borrower and the asset are solid. We have made similar statements and summaries over the past 16 quarters. Is there a significant change pending? I cannot say. There seems to be a higher level of anxiety, but lots of capital keeps the economic wheel turning. A sudden hiccup in the availability of capital could cause a number of these wheels to stop turning.

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