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## 2009 and counting: New Hampshire commercial real estate forecast: A double edged sword

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Being asked to write the forecast for commercial real estate in New Hampshire is a doubled edged sword. Being too rosy and one is labeled a cockeyed optimist, too negative and one is a doom and gloomer. I will attempt a middle path, but my lean is toward the dark sideâ€”at least for 2009.

Let's start with employment. It takes workers to fill buildings. Workers, by definition, are those who work, i.e., have jobs as compared to those who do not (a.k.a. the unemployed and increasingly the under employed). Calendar year 2008 saw the loss of 2.6 million U.S. jobs. On Dec. 31st the national unemployment rate was 7.2%. This is the highest in 16 years (1992). The last time 2.6 million Americans were unemployed was 1945 after the end of WWII. Projections for 2009 are more unemployment. Perhaps another 1, 2 or 3 million Americans will loose their jobs in 2009 (out of 131 millionÂ±). In New Hampshire our unemployment rate is currently 4.6% but climbing. In R.I. it is over 10%. A 7% unemployment rate in New Hampshire will feel like a 10% unemployment rate in Rhode Island. New Hampshire has been the gazelle of the 6 New England states, handily out performing the other 5, year after year.

Last week, a vice president of the Boston Fed presented data to the Boston/N.E. Chapter of the Counselors of Real Estate showing how closely New England has tracked the U.S. in economic indicators over the last 10 years. His conclusion was that New England is not old, cold and declining. The data shows New England to be as robust as most regions of the U.S. However, there is a wide range of performance measures among the 6 states.

Back to New Hampshire. Why New Hampshire continues to outperform the other N.E. states, and will continue to do so, is due to its mix of industries, high entrepreneurship, well educated population and its proximity to Boston. "Where we go from here in terms of job losses remain critically tied to developments in housing, credit markets, along with consumer and corporate confidence . . . or lack thereof." (Jeff Thredgoldâ€™Tealeaf 1/14/09)

The congressional budget office forecasts:

- \*The US economy will contract 2.2% (after inflation) during 2009.
- \*The 2009 budget deficit will be \$1.2 trillion plus addition stimulus programs.
- \*The unemployment rate will reach 9.2% in 2009.
- \*Home prices will decline another 14% over two years.

Whether you agree with these numbers or not, 2009 will not be pretty.

Enough doom and gloom. The U.S. and global economy has been over heated for quite some time. A correction is due and we need to purge the system. So what happens after 2009?

The very deep recession will take several years to shake off completely. But we will shake it off. Think back to 1990-1993, the last big recession, especially in New Hampshire where 5 of our 7 biggest state banks were taken over by the FDIC. It was a dark and scary time. However, in

hindsight, we were well into recovery by 1994. We might not have clearly seen this until a year or so later, but about 2-2½ years after the closing of the 5 banks in Oct. of 1991 we were on the mend and recovering. This recession is more broadly spread and deeper so maybe it will be 3-4 years before we recover to 2007/early 2008 levels.

But we will recover because N.E. has a long history and legacy of adaptability and entrepreneurship. The Pilgrims got dumped on Cape Cod—not Virginia. They had less than a year's supply of food. They adapted. Their children migrated into whaling. Their grand children into manufacturing, shipping, commerce and banking. Textiles reigned for decades, powered by N.E. rivers. When the textiles went south, shoes were made in the mills.

All this time N.E. started and built public and private colleges as well as great hospitals. We were and are a highly educated and technical region. Following WWII we migrated to electronics, defense, computers, internet technologies and tel co. Then venture capital and mutual funds became large regional employers.

With this legacy, it is reasonable to suggest we will not just roll over and play dead. We will participate in the green revolution, new fuels, new technologies and productivity enhancements of all types.

Will the country create 23 million new jobs as it did during Bill Clinton's 8 years in office? Probably not, but we will create more than the 3 million net new jobs during George W. Bush's 8 years in office. As stated above, 2009 will not be pretty and maybe some or all of 2010. But things will improve and commercial real estate for both users and investors will come back. Sales at 6% cap rates, 1.1 debt coverage ratios, 80% loan to value loans are history. The metrics will move toward historical norms. Money is available but the terms will be tighter. Nonetheless, commercial real estate is a tangible and worthy asset class for the next 10 years and beyond.

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