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Now is the time for investors to identify opportunities and select the best available

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New Hampshire, often cited as the gazelle of the six New England states is still the strongest performing state in the Northeast. Alas, not all variables are positive. New Hampshire is losing population (not much, 200-400 per month). Job losses too are rising, but not as much as most states are reporting. It is town meeting season (as I write this) and most towns are pinching pennies, cutting back and stressed about governor Lynch's plan to eliminate or at least reduce local aid paid by the state to the cities and town. The governor promises the stimulus money for schools will more than make up for it. (Local aid has been coming to the towns for 50+ years. The stimulus dollars might last 3 or 4 years...)

Commercial real estate tends to lag the residential sector by 12-18 months when the markets turn down. The residential markets went soft in late 2007/early 2008, so the commercial sector is due. We definitely see a high degree of caution from all parties – tenants, landlords and lenders. The big stressors are jobs. The slow down is resulting in lay offs. Firms with fewer employees need less space or do not want to take on new space. Result: they tend to extend where they are for short periods of 1 or 2 years.

The stockmarket bounced back to over 7,000 this week. People are buying good stocks (GE, Microsoft, and Cisco among others). Whether it is next quarter or year end, most investors want to get in early rather than late. The largest concern in the commercial sector is the seize up of the CMBS (Commercial Mortgage Backed Securities) market. Depending on what source you quote there may be \$180-\$400 billion of commercial CMBS loans scheduled to reset/refinance in the next 12-18 months. The credit markets are very tight. There is no CMBS right now, so who is going to make those loans? All the usual parties are on the sidelines...

At the local level we see tightening credit and lending terms. Conservative appraisals (some might say realistic ones) coupled with more traditional lending, mean borrowers have to come up with more cash to meet the higher equity requirements.

One surprise recently has been several foreclosure auctions where the SBA did not show or did not bid. This is significant, especially for the local banks that assume the SBA will take them out. We are talking about SBA 504 loans (50% bank debt, 40% SBA guaranteed debt and 10% equity).

These are real estate loans where the tenant/user must be related to the borrower. When the tenant/user gets into trouble the real estate is stressed because the tenant's rent pays the mortgage(s). Traditionally, the bank in first place with to 50% piece is confident the SBA will protect

its second position (nominally 40%). But if the SBA does not show or does not bid, then the bank is made whole by a bidder covering the first, or buys it back for somewhere around 50% of the asset value.

For certain properties, such as restaurants, the bank might well prefer to be taken out (paid off) by the SBA than get the property where they have to place it in OREO (Other Real Estate Owned), fund reserve for expenses and then manage this non-performing real estate.

The word is that the SBA does not have money to buy these foreclosed properties. If this continues, there will be some interesting opportunities for investors.

That is what we are doing, trying to identify these opportunities and then selecting the best ones to present to our investor clients. Even with pricing correcting to historic norms, the overall economy determines the availability of tenants. It is all connected. It is complex and how it will all unfold is anyone's guess. Will it take 2, 4 or 6 years to get back where we were?

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