



SY HARDING
Being Street Smart

Economy's biggest problem is real estate

The economy has more problems going forward than were present at most previous economic slowdowns. That has even many former bulls on Wall Street moving into the camp that expects a recession by the first quarter of next year.

It's not only that the yield curve has inverted (longer-term rates lower than short-term rates), historically a sign that a slowing economy will slow all the way into a recession in six to nine months. It is not only that consumer spending, normally accounting for 65 percent of the economy, has been providing just about all of the economy's strength since the 2001 recession. Consumers are now up to their necks in credit card and mortgage debt, even as energy and gasoline costs are triple what they were in 2001, and higher insurance, food, and other costs are also taking money from their pockets, all of which makes it impossible for the previous level of consumer spending to continue.

It's not just that the federal government is also up to its neck in debt, running record budget deficits, with an ongoing expensive war, extra costs of such events as the Katrina hurricane disaster relief, and the build-up of homeland security, which makes it almost impossible for Washington to provide a massive economic stimulus package to prevent a recession, such as it provided to pull the economy out of the 2001 recession. Back then the federal budget was running surpluses not deficits, there were no wars, and there had been no Katrina type disasters.

Yet the biggest problem facing the economy is the bursting real estate bubble.

When the air started hissing out of the real estate bubble a year ago, Wall Street's spin was that it simply wasn't happening, even though insiders at the large home-builders were bailing out of their stock at a record pace, the stocks were falling into a dark hole, and the companies were reporting record earnings, but warning that sales and earnings were peaking.

When the evidence of the bursting bubble became more clear, the spin became that it was just a softening, a leveling off at a high level of activity, a healthy level that could be maintained. However, the picture has become much more bleak.

Home sales, which had been declining month after month, have really started to plunge, already 12 percent lower than a year ago. Homeowners and real estate speculators are rushing to the sell side to try to cash out. But buyers are scarce, raising the inventory of unsold homes to record levels. While home prices have only declined fractionally so far, more and more "For Sale" signs have the extra tag "Price Reduced" attached, and what few buyers remain are making offers that are increasingly well below asking prices, well aware that it is now a buyer's market.

Builders and developers are complaining about the increasing number of contracts that are being canceled, buyers willing to walk away from their deposits rather than go ahead with construction of a house they fear will be worth less than they will owe on it by the time it's finished. Roughly \$2 trillion in adjustable-rate mortgages are due to be reset to higher rates this year and next, which will result in large increases in mortgage payments for many current homeowners.

So we need to combine the inverted yield curve, the inability of consumers to continue their buying spree of the last few

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Bucking the trend

Pamela Hodgdon/Citizen photo

BRIDLE WOOD PRESERVE CONDOMINIUMS, owned by Brady Sullivan in Rochester.

Brady Sullivan keeps buying, despite housing market slowdown

By **CHLOE JOHNSON**
Staff Writer

Brady Sullivan Properties plans to continue to build up even as the real estate market slows down.

Brady Sullivan has over 10 sold-out condominium buildings in the state, including Crickebrook in Dover, and another 10 with units available such as Bridlewood Preserve in Rochester.

It also owns over 300 million square feet of office and industrial space. This includes the recent acquisition of the former Hampshire Plaza in Manchester, which was the company's largest deal to date at \$25.5 million. It now owns two of the three tallest buildings in that city, where the company is based and has the most presence.

Last year Brady Sullivan sold about 1,000 condos, and Arthur Sullivan, a partner in the firm, said he expects to sell at least that much this year.

The company continues to sell, he said, while the housing economy generally has slowed down.

"We're still doing millions of dollars in sales a week every single week in condominiums," Sullivan said. "I believe that's surely because of the value."

— **ARTHUR SULLIVAN,**
Partner

Sullivan said he and his partners have been in the real estate business long enough to have seen the market rise and fall. "It's all in adjusting to that market at any one time," he said. "Make sure you have the right product at the right price and the right value."

Sullivan got into real estate at age 20 after dropping out in his third year at Keene State College. He owned A.W. Sullivan Realty until 1992 when he joined forces with the Brady Companies — David Brady, an active real estate investor as well, and



Pamela Hodgdon/Citizen photo

ANGELA ST. GELAIS, a sales representative at Bridle Wood Preserve Condominiums, owned by Brady Sullivan in Rochester, relaxes in one of the model condos.

his son Shane Brady who was following in his footsteps.

"We have moved forward from that point and never looked back," Sullivan said. "And we just continue to buy and acquire."

The company buys real estate that others wouldn't buy, Sullivan said. He said repositioning old or empty buildings is what the company does best.

In some cases, the company has taken a mill

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N.H. firm parks future in metered spots

By **ELLEN ROSEN**
New York Times News Service

If John J. Regan has his way, coin-operated parking meters will soon go the way of pay phones.

Regan, 50, is the chief executive of Parcxmart Technologies, a company in Hampton Falls that has developed a smart card that can be used for both parking and local shopping.

With programs under way in New Haven and Bridgeport, Conn., Regan — along with the founders and investors — hope the company can break into the multibillion-dollar industry.

Moving from concept to concrete can be difficult, especially in a market dominated by a few companies like Cale Parking Systems USA, Duncan Parking Control Systems and POM Inc., which work with thousands of municipalities nationwide. Marketing a card meant "getting the meter manufacturers to come to the table — it's like dealing with the Hatfields and the McCoys," Regan said.

But he was determined.

The parking industry generates approximately \$28 billion annually, according to Kim E. Jackson, the president of the International Parking Institute in Fredericksburg, Va. Although the group does not tally parking meter revenue

separately, Jackson noted that more than 3.5 million meters are on the streets nationwide. Over the last 10 years, other companies have begun marketing a range of cashless payment options — including smart cards — for parking.

Regan stumbled upon the idea. He was heading to a meeting at a Wells Fargo bank in San Francisco when a guard delayed him. As Regan, who worked for an electronic payments company at the time, grew impatient, the man behind him, who worked in the smart card industry in Ireland, struck up a conversation.

"He asked if I had ever looked at the parking meter industry, which he told me was a \$7 billion business, with more than \$3 billion collected in quarters every year," Regan said. "I knew it was a sweet spot, but I didn't know it was that large."

European countries, the man told Regan, had largely abandoned coin-operated meters for systems that employed smart cards.

The conversation, Regan said, "started my wheels spinning" and soon led to a business fraught with challenges, including breaking into an area that was controlled by municipalities as well as parking meter manufacturers.

"It is difficult to get people to cooperate on unified systems, since everyone



JOHN J. REGAN OF PARXMART TECHNOLOGIES uses his New Haven-branded card to park on Chapel Street in New Haven, Conn.

The New York Times

has to agree to accept the same card," said Michael I. Shamos, a computer science professor at Carnegie Mellon University. "But it is the easiest thing in the world to use; it's just hard to get everyone to accept it."

Regan, who had worked for Visa in its smart cards division before joining Arcot Systems, the electronic payment company, was not deterred. He continued to mull over his chance discussion.

By early 2003, he had left Arcot to become a consultant. A Boston headhunter called him and introduced him to Gerard Kiley, who essentially was in the business of starting businesses. Although they differed on what to pursue,

Regan said his idea — a preloaded smart card that would work for parking meters as well as with local merchants — won the day.

Over the course of the next year, two other men joined the entrepreneurs to form Parcxmart Technologies. They couldn't afford offices, so "we alternated kitchens so our wives wouldn't get too mad at us. It was a high-risk environment and it could get pretty tense," Regan said.

Because it took months to receive their first round of financing from angel investors, the men used their own savings to travel to Europe to evaluate

METERED, PAGE B3

BUSINESS

296 square feet, but it's home: Seattle discovers tiny condos

BY AUBREY COHEN
Seattle Post-Intelligencer

SEATTLE — Park two of GMC's biggest Sierra pickups next to each other. That's a lot of truck, but a small condominium — at least by Seattle standards.

But a developer is betting Seattle urbanites are primed to carve out their own two-truck chunks of Belltown. The moda condos, set to break ground in October, promise "New York-style living," with units as small as 296 square feet that start at \$149,950.

"I think there's unmet demand for affordable new construction in downtown," said developer G. David Hoy, president of HMI Real Estate Inc. "I also believe downtown needs more

diversity."

Debra Smith, who now lives in a studio apartment in Queen Anne, has already reserved a studio at the project, called moda. She extolled the location, the price and even the size.

"I like having everything in just one room," she said. "I just think it's a waste of money to have all this space that you don't really need."

Moda is not Seattle's first small-condo project. The Montreux building, built in 1999 at 425 Vine St., has condos barely above 300 square feet.

Erin Stines, one of the first Montreux buyers, said it was a place she could afford within walking distance of Seattle University, where she was going to

law school at the time, and the law firms where she worked.

"It was easy to clean," she said. "I didn't really have money for furniture, so whatever I did have, it just instantly filled it up."

Stines lived in small student housing in England and a "miniature little apartment" in Japan before buying into the Montreux.

"People around the world live in places a lot smaller," she said. "I think that definitely influenced my perspective."

Stines got married and moved out in 2002. She now rents out her condo, holding onto it for possible future use as an urban crash pad — something she said some other Montreux owners al-

ready do.

A quick review of real-estate listings shows "New York-style living" is, indeed, available in New York, with condos as small as 250 square feet on the market in Manhattan.

Rick Hooper, policy director for Seattle's Office of Housing, noted in a moda news release that city officials want more affordable homes downtown, close to jobs and transportation.

"To find a developer who's able to put an attractive product on the market that hits that lower price range is fantastic," he said.

The building's 251 condos will range up to two-bedroom, two-bath units selling for more than \$400,000. All of the condos will have such luxury touches as ap-

pliances with stainless-steel finishes, granite or limestone countertops, floors finished with cherry or walnut and tile bathrooms.

The developers know they're up against some trepidation about small condos. So they're building several of the units in their sales office. "Everybody always thinks, 'Oh my God, what can I put in 300 square feet?'" said Iolanthe Chan-McCarthy of Urban Pacific Real Estate, moda's marketing firm. "So we decided to show them 300 square feet."

The smallest display unit includes a bathroom and kitchen, walk-in closet, eating counter and areas to fit a desk, table, fold-away bed and other bare necessities. The fridge and dishwash-

er are smaller than most and other touches, such as sliding doors and small light fixtures, are designed to fit a little place.

So will the small-condo lifestyle catch on in Seattle?

Chan-McCarthy said she often hears complaints about the lack of less-expensive units in other projects she represents. Interest in moda already has been strong, she said, with 228 people preregistering at the development's Web site since the start of advertising Saturday.

Matthew Gardner, a local land-use economist, said moda hits an unmet price range downtown while still generating a decent return per square foot for the developer. "It's a gutsy move, certainly," he said.

Trend

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building that was vacant for half a century and turned it into a modern, occupied space.

"We never look at it for what it is," Sullivan said. "It's what we envision it to be at the end."

The office is located in a former industrial mill building in Manchester. The company restored the Millyard in such a way

that it maintains its original charm. It has high ceilings with exposed wide beams. The wood floors are shellacked, but creak every few steps and have the character of nail holes and stains. The windows stretch nearly the height of the brick walls.

Sullivan said the company prefers buying existing structures because they get them at less than replacement cost and the construction work can be completed sooner. Sullivan said

the company incidentally preserves historical buildings.

Brady Sullivan is considered one of the largest condo converters in New England.

The company until a few years ago owned and rented apartments as well, but Sullivan said the market was right to sell the spaces as condos. He said selling them as condos maximized the value.

Bridlewood in Rochester has been on the market for less than

a year, and there are 12 units remaining of the 76 units in 11 buildings, said Pat Simpson, sales manager. The property was previously a rental apartment complex.

"The condo market continues to be strong for product priced correctly," she said.

Brady Sullivan has the purchase of almost 800 more condos under agreement this month, and plans on buying another 100 units soon, Sullivan said.

He said the company is "constantly" looking for new inventory, and "always" looking at new markets.

There are also projects in western Massachusetts, and the company is starting to invest in Naples, Fla.

He said they are likely to sell the condos in Florida for about \$200,000 in a market where an average house sells for \$500,000.

Two commercial deals expected to close soon are 200,000 and

550,000 square feet of office space, he said. Sullivan said, "if it was just about money," the company would have stopped expanding years ago. "Right now it's about building a company," he added.

In some locations, including Milford and Laconia, the company has built condos from the ground up.

Sullivan said the company's reputation for diligent business practices is an advantage. "Deals come to us before more people ever know they're on the market," he said. "It's all about buying right in order to sell right."

Sullivan said the company is unusual in that it does its own work from start to finish, including architectural plans and construction. He said this helps keep costs down up to 40 percent less than those using contractors.

He said condos provide a way for first-time homebuyers to get into the real estate market. He said the condos are a real value for people who otherwise might be priced out of the market.

Sullivan said the company acknowledges a need for workforce housing, and tries to fill that void by making condos affordable.

"Condo sales have been, and continue to be, one of the few affordable ways for buyers to enter the real estate market," Simpson said.

She said most buyers can own for the same price they pay now for rent, and earn equity on their investment.

Sullivan said the company makes an effort to put in amenities that make the condos look and feel better than apartments. He said the company uses quality materials like granite countertops and cherry wood cabinets.

"We want these units to be something that we'd be very comfortable to live in ourselves," he said. He added that details like stainless steel appliances make a difference.

Because the company works with such volume, Sullivan said, they are able to buy building materials for less and sell living units for less.

"We're very conscious of being quality driven," Sullivan said. "Everybody likes quality and everybody likes value."

Harding

From Page B1

years, and the inability of Washington to provide a large re-stimulus package of increased federal spending and tax cuts, with the crumbling housing sector to see why the economy is probably in even greater trouble than in past slowdowns.

For instance, approximately 30 percent of new jobs created over the last few years were created by the housing boom. A slowdown in the sector that results in layoffs rather than job growth will be quite a turnaround in the employment area. Meanwhile, just as the housing boom produced beneficiary results far beyond home construction, creating a boom in furniture and appliance sales, mortgage brokering, banking, etc., with the strong employment filtering down to retail and restaurant sales, a housing bust will have a serious effect in the opposite direction.

For the past couple of months the stock market has been celebrating the signs of the economy slowing, since it raises the odds the Fed will not have to raise interest rates any more, that a slowing economy will take care of lowering inflationary pressures by putting a crimp in jobs and consumer spending that will reduce demand for goods, and halt the rise in prices.

But a slowing economy will not be good for employment, or corporate sales and earnings. And a growing number of economists and corporations have been trying to warn investors in that regard.

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