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CB Richard Ellis 2009 New Hampshire commercial real estate market survey

March 31, 2010 - Northern New England

I-93/Route 3 Corridor

Office Market

The I-93/Rte. 3 office market continues to experience reduced demand due to the slowdown in the overall economy and the ensuing increase in unemployment, but has fared better than most areas due to the strength of the defense and electronics companies located in southern New Hampshire. The overall vacancy rate in the I-93/Rte. 3 corridor increased from 13.7% in 2008 to 15.3% in 2009. The trend is likely to continue in 2010 as companies with leases expiring will choose to downsize their current space or elect not to renew their lease at all. Many of these companies have already ceased operations due to the mortgage meltdown and financial crisis of 2008 and have been offering their excess space for sublease. Tenants renewing their leases in 2010 will find lower lease rates and much more accommodating landlords. Average asking lease rates for office space remained steady in the \$12 per s/f, NNN, range in 2009. Other financial lease incentives, however, have increased more dramatically from the normal tenant improvement allowances to also include free rent periods, moving allowances, free parking and interior design services.

The Nashua office market was buoyed by Benchmark Electronics' 150,000 s/f commitment in the Nashua Technology Park. The defense electronics maker will be occupying space recently vacated by Hewlett Packard on Innovative Way at exit 1 of Rte. 3. BAE Systems will be taking the space vacated by Benchmark in Hudson. The recently awarded Joint Strike Force Fighter contract has caused job growth at BAE's New Hampshire locations. The employment and economic ripple effect of BAE's government contracts will also help the many BAE suppliers located in southern New Hampshire. The I-93 corridor was also successful in avoiding a major increase in vacancy as the newly constructed office buildings at exit 2 in Salem continued to find tenants. The 65,000 s/f Ananda building, built in 2007, finished 2009 with 33% vacancy, down from 42% at the end of 2008, and the 36,000 s/f Brooks Properties building at 11 Keewaydin Dr., built in 2008, finished the year with 50% available down from 90% in January. 11 Keewaydin Dr. secured Cornell University for its 3,000 s/f Executive MBA campus as well as Standex International's world headquarters. Standex International was able to improve its real estate efficiency by downsizing from its current multi-floor, 29,000 s/f facility on Manor Parkway to the newly constructed and energy efficient space, taking the entire third floor (12,000 s/f) at 11 Keewaydin Dr.

I-93/Route 3 Corridor

Office Market Forecast

The Southern New Hampshire office market has remained resilient during the most recent economic downturn and has only seen a moderate increase in vacancy in 2009. 2010 will be another challenging year for office properties with the 15.3% vacancy rate expected to increase to a range of

17% to 18%. Lease rates will also come under pressure and may revise downward from their currently steady \$12 per s/f range. The combination of increased vacancy, reduced lease rates, more stringent lending practices and lower appraised values will require strong relationships between lenders and borrowers in order to refinance the mortgages coming due in 2010. We are confident that the New Hampshire fabric of diverse industry sectors, strong local banks and even stronger property owners will provide the foundation for the eventual recovery from the current commercial property malaise.

The overall Seacoast/I-95 office market vacancy rate increased to historically high levels over the past year from 18.5% to 20.3%. The seacoast office market is comprised of approximately 7.9 million s/f of space with over 70% of the market located in the Portsmouth downtown and suburban markets (2 million s/f), the Pease Tradeport market (1.6 million s/f) and the Dover market (1.9 million s/f). The Pease and Portsmouth market vacancy rates increased to 15.2% and 16.9%, respectively, while the Dover market did not see a dramatic change. The vacancy rate in Dover, however, is a whopping 24.8%. This increase in available office space was expected with the downturn of the US and local economies.

A wait-and-see approach had been adopted by most office users in 2009. Build-to-suit plans have been delayed, while companies evaluate the impact of the economy on their businesses. Furthermore, developers are no longer in a position to build new speculative product, especially at the Pease Tradeport, as the requirements to obtain financing have drastically changed. Owner/users, who typically could get financing with a 20% down payment, are now seeing lending institutions require 30% to 50% down. Large office projects that were slated to go forward in 2009 have been put on hold indefinitely, such as the Portwalk project, a proposed mixed-use downtown Portsmouth building.

that will add 150,000 s/f of Class A office space to the market.

The 50,000 s/f, mixed-use building at 99 Bow St. in downtown Portsmouth, which was stalled during the year, is now scheduled for a fall 2010 delivery. It will add approximately 20,000 square feet of direct waterfront office space to the market. Currently, the only new construction project at the Pease Tradeport is a 25,000 s/f daycare center that should be completed in early 2010. This facility should serve as a draw for future office buildings in the proposed four-building office complex, which includes the Newmarket International building completed in 2008. The silver lining is that tenants who can weather this economic period are well-suited to negotiate either for new space or for renewals of their existing space. Tenants have successfully negotiated renewals at a discount of up to 20% over current rates, taking advantage of landlords' willingness to keep good tenants in their buildings. Savvy landlords are providing even marginal credit tenants with incentives to retain them. A good example of this trend is Timberland's 2009 renewal of its office headquarters in Stratham. Timberland was in the market for approximately 160,000 to 180,000 s/f of space and considered both second-generation options and new build-to-suit space at the Portwalk project before renewing under very favorable terms. The Pease Tradeport and Downtown Portsmouth Office markets remain the desired locations for tenants looking to relocate. During 2009, the fourth and fifth floors of One Harbour Place in downtown Portsmouth were converted to residential condominiums, reducing available downtown office space by 40,000 s/f. With no new construction, positive absorption is expected in the Portsmouth and Pease submarkets during 2010. Given the current market climate and the expected reduced demand for office space, landlords are significantly discounting rents to attract or retain tenants. Asking Class A lease rates currently range from \$16 to \$21 per s/f, NNN, in

the Portsmouth office market. Overall asking rates remain steady, ranging from \$12 to \$14 per s/f, NNN, in most other submarkets. There has been continued sales demand for office space in Downtown Portsmouth and surrounding areas with cash buyers looking for opportunities to purchase troubled assets. However, the Seacoast area has not been as negatively impacted by the collapse of the credit market as some of the larger metropolitan office markets, and we have yet to see any significant reduction in sale prices in the desirable Downtown Portsmouth and Pease submarkets. Office properties are trading for sale at below market prices per s/f compared to 2008. During 2009, the former Fisher Scientific building at 1 Liberty Lane in Hampton sold for an astonishing \$35 per s/f, well below replacement cost for this Class A property. This property, which was sold vacant, will be repositioned in the market for multi-tenant office use and should provide prospective tenants with a unique opportunity to lock into very favorable lease terms over an extended term.

For complete survey visit www.cbre-ne.com/cbre/research/nh/2010/nh_marketsurvey_2010.pdf

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