



nerej

We see another strong year for commercial real estate in New Hampshire - by Bill Norton

March 30, 2018 - Spotlights

Bill Norton,
Harrington & Reeves

I recently returned from Florida - Jacksonville, Ponte Vedra, Plantation Bay, and Ormond Beach (upper east coast). I was glad to get away from the cold and back to back Nor'easter's. The weather was excellent – 1960s, 1970s and 1980s. I got a few rounds of golf in, but like any real estate practitioner, I was looking at the landscape. The northeast corner of Florida is cooking. Jacksonville is supposed to be the fastest growing city in the U.S. They seem to build a \$1 billion interchange every year!

What does this have to do with commercial real estate in New Hampshire? Contrast! We have our share of development, especially some medical (although that sector is in flux - more on that in a moment) and multifamily. And now we know IKEA plans to come to Salem. Southern N.H. has a significant amount of activity, not like the heyday, but robust by New England standards. The Middle tier and Northern New Hampshire, not so much.

There is still plenty of capital to invest, money to loan and rates are still low by historical standards. The “governor” is the extremely high cost of construction. The shortage of skilled labor and a smaller pool of competent contractors and construction managers has driven prices up (and up). Everything today seems to cost \$200 per s/f, except medical which can be \$250, \$300, or more!

I toured a new medical office building in Nocatee (a new town between Ponta Vedre and St. Augustine). It was being built for \$165 per s/f. I was curious about the quality. I met one of the owners playing golf one day and he invited me to come take a look. I was impressed. The design was solid and functional. We grabbed a cold drink and I queried him about costs. Land, especially permitted or “entitled” land is less expensive than the Northeast. Of course, they have lots of undeveloped land in Florida. The permitting process is quicker, simpler and cheaper. The trades are plentiful and labor rates are 20% - 25% less (cost of living in Florida is less too). Much of the construction is single-story, as land is cheap. The pace of construction seems to be faster too, which saves money.

So, I saw comparable product for 20% - 30% less cost. Rents were lower proportionally. The cost to

build and rebuild in New England will continue to be higher. There may be some relief by expanding the workforce in construction, but this takes time. Back here in NH, I did some bathroom upgrades at my home and was glad to pay a good plumber \$150 per hour. He is a sole practitioner and makes a very good living. He has no college debt, is as busy as he wants to be. As I looked around job sites in Northeast Florida, it dawned on me that the median age of the work force was perhaps 30 to 40. In New England, anecdotally, getting younger people to consider the construction trades is an important strategy. Alas, there are no, or hardly any, apprentice programs, so it is on-the-job-training (OJT) with companies and tradesman that are willing to teach. The technical colleges and schools offer programs but seem to be under-enrolled.

The higher cost of construction has been absorbed by the low cost of money. If (when) the cost to borrow goes up, the higher construction costs will be a constraint. President Trump's announcement of tariffs on steel and aluminum will also push construction costs up at some point.

But for the time being, The Beat Goes On! The ripple effect from Greater Boston still continues to lift the local economies of Southern New Hampshire. These towns can be a lower-cost alternative for housing, office, manufacturing and even retail space. The medical sector is seeing this too. MGH buying Wentworth-Douglass in Dover; the affiliation of Elliot Hospital and Southern New Hampshire Medical Center; continuing talk of Lahey and others poking about..... In short order, we will no longer have 26 hospitals in New Hampshire.

How this sugars off will be interesting and will prompt considerable new development and even more redevelopment. So, as long as the economy keeps plugging along, we see another strong year for commercial real estate in New Hampshire, especially in the Southern Tier.

Bill Norton, CRE, FMA, Hon. AIA NH, is a principal of Harrington & Reeves, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540