Industrial and office market trends for New Hampshire's Seacoast region - by Kent White, Christian Stallkamp and Caitlin Burke

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Kent White,
The Boulos Co.

Christian Stallkamp,
The Boulos Co.

Caitlin Burke,

New Hampshire’s Seacoast commercial real estate market experienced very high demand with low inventory and continued increases in construction costs in 2018. The vacancy rate remains low in both the office and industrial markets with the industrial market falling to 5.5%. Lack of inventory coupled with rising construction prices have forced businesses and investors to either pay premium sale and lease rates or get creative about their space, hold tight for a dip in the market, or in worst cases be forced to consider properties outside of the Seacoast.

The lack of inventory might seem impossible to believe after a quick drive through downtown Portsmouth, where it’s hard to miss the dozen or so new construction sites. Dive a little deeper into the details of each site and you will notice that the majority of development projects dedicate a significant amount of square footage to residential housing or hospitality. These two sectors achieve a much higher price per square foot return for investors than traditional office and retail space, therefore helping to stabilize the profitability of the project despite rising construction costs. Also given the mixed use nature and downtown location of these projects, they will eliminate a little pressure on the office vacancy rates but will not solve the lack of industrial space. As a result, we predict the office vacancy rate will increase slightly on the Seacoast next year, and growing companies will continue to seek urban downtown spaces vs. suburban office parks. The industrial market vacancy rate will continue to fall and prices will continue to increase.

Landlords and tenants should continue to think creatively as the market changes. One trend that has popped up in other areas of the country but has not been prominent on the Seacoast is the conversion of vacant malls or big box retailers to industrial space. With the cost to build ground up unachievable for many, renovating an existing property could be a smarter solution while simultaneously giving those tired properties a second life.

Seacoast Industrial Market Trends:

• Limited Inventory: the industrial vacancy rate dropped slightly from 6.0% in 2017 to 5.5% at the close of 2018. For the past five years, the vacancy rate has remained stable averaging 5.68% during this period which is down from a high of 12.9% in 2010.

• Rising Construction Costs: construction costs have escalated 20-30% within the past 2-3 years. The price of materials and site work have increased, but rising labor costs are having the most significant impact on construction costs. A lack of skilled labor has caused subcontractors to increase their quotes.

• Pressure to keep pace with demand.

• The combination of escalating construction costs and low vacancy has created an interesting dynamic within the industrial market: Sale prices and lease rates have increased but not as quickly as the pressures in the market might suggest. Buyers, tenants and lenders are leery of “over paying” and appraisers are having a hard time justifying some of the sale and lease rates because the market is changing so quickly.

• Examples: 125 Ocean Rd., Greenland recently sold for $94 per s/f and 9 Post Rd., Portsmouth sold for $86.61 per s/f. Considering that new construction currently can cost upwards of $120 to $140 per s/f, it is only a matter of time before paying over $100 per s/f to own industrial property and over $7 per s/f NNN to lease is expected

Seacoast Office Market Trends:

• Rising Prices: The average office asking rent rose from $11.74 per s/f NNN in 2017 to $14.12 per s/f NNN in 2018.

• Portsmouth, considered the epicenter of the Seacoast market has the market’s highest asking lease rate at $18.50 per s/f NNN.

• Urban vs. Suburban: Larger tenants (+20,000 s/f) are not only demanding Class A space but are also showing a preference to downtown urban areas over suburban office parks. This is slowly trickling to the Seacoast but has been a consistent trend in Greater Boston; the biggest example is General Electrics decision to relocate their corporate headquarters from the North Shore to Boston’s Seaport District.

• Parking Pressure: Buildings designed 20 years ago provided the traditional 4-5 spaces per 1,000 s/f of office space, where new tenants are demanding 6-7 spaces per 1,000 s/f as many companies prefer open layouts where there are many more people per s/f.

Change is a Good Think:

2018 was also a change for us at The Boulos Company. In December, we ended our 17-year affiliation with CBRE. This is a bittersweet transition as we have valued our relationship with them. However, when faced with the option of selling our business and becoming a corporate office or remaining independent, we took stock of who we are and what best serves our market, and the choice was clear – we want to remain a locally owned and controlled company.

Kent White is principal broker/partner, Christian Stallkamp is a senior broker and Caitlin Burke is an associate with The Boulos Co., Portsmouth, N.H.