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## **Construction is visible as exemplified by mixed-use projects - by Bob Rohrer and Kristie Kyzer**

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Construction in New Hampshire is visible throughout the state, as exemplified by the mixed-use projects, both redevelopment and ground-up, and the many owner/user industrial and office projects breaking ground. What is less evident is speculative development of office and industrial products. With occupancy rates averaging above 90% for both the office and industrial markets, statewide, the

conditions seem perfect for spec investors and developers to jump in. However, that is not the case – yet. Colliers reports that rents are continuing to rise slowly each quarter; which will hopefully lead to reasonable margins to entice investors to build.

Office and industrial space absorption continued in Q1 of 2019. New Hampshire's office occupancy rate rose by 2.6% year-over-year, ending the first quarter at 91.2%. This market tightening was accompanied by a rent rate increase of \$0.15 PSF, year-over-year, ending the quarter at \$18.65 modified gross. The industrial occupancy rate stayed stagnant, year-over-year, at 94.6%, but rents continued to increase by \$0.35 PSF, year-over-year, ending the quarter at \$7.14 NNN.

Likely due to the high occupancy rates in office and industrial, a trend we've noticed is that traditional users of those product types are now looking at alternative options, like retail locations. For instance, we typically find brewery companies locating in industrial space. However, 603 Brewery is relocating from its current space in an industrial park in Londonderry into a new, 18,000 s/f facility at Woodmont Commons. This new retail location is expected to triple the company's current brewing capacity and include a large beer hall. Another example is CoreMedical Group's relocation from its current office park site at 3000 Goffs Falls Rd. in Manchester, which was just purchased by BAE Systems. CoreMedical chose to relocate to the Shoppes at South Willow, a new retail plaza in Manchester, a site that will allow for more providing more parking and greater access to amenities. More companies are following in CoreMedical's path, seeking out environments similar to so called "Live, Work, Play," that will be conducive to its employees, help attract new talent and provide more progressive office space.

Last year, we reported that many companies throughout the state were modifying and/or expanding their current sites, adding additional parking and making other renovations, all to keep up with corporate growth. Examples include Hitchiner Manufacturing in Milford, Medicus Healthcare Solutions in Windham, Lonza Biologics in Portsmouth, Pfeiffer Vacuum in Nashua, and many more. We saw more examples of this trend in Q1, including Lindt Chocolate, of Stratham, who submitted plans to build a 100,000 s/f addition to its facility and add a parking garage to its 1 Fine Chocolate Place home. If plans are approved, the company will add around 230 employees to staff its increased manufacturing space.

While more companies seem to be expanding onsite, a large owner/user industrial project is breaking ground in Londonderry. Poultry Products, currently in a 22,000 s/f facility in Hooksett, plans on quadrupling its size and investing \$28 million into its new 105,000 s/f plant on Jacks Bridge Rd. This move allows the company to grow immediately and the 26-acre site ensures the availability of future expansion capabilities.

While much of the construction and expansion was in the industrial market, there was some significant office construction as well. Part of the new office space being delivered is not in the traditional office building model, particularly in the Seacoast markets. For instance, at the end of last year, we focused on new commercial construction in the Dover submarket that incorporated residential use on the top floors with retail or office components at street level.

This trend is continuing, as observed in downtown Portsmouth. Along Maplewood Ave., a 5-story building with approximately 16,000 s/f of office/retail space on the first floor and 22 residential condominiums above. This new development is set to open in 2020. This trend is prevalent in many urban areas in the country and now, it would seem, is taking hold in New Hampshire.

New Hampshire is following another trend of large, mixed-use developments that have become prevalent, nationally. Tuscan Village, Woodmont Commons, and Market & Main are leading the way. The first phases of the above developments are retail and residential focused – with Friendly Toast and Trader Joe’s opening at Market & Main, 603 Brewery and an assisted living facility under construction at Woodmont Commons, and two newly built residential complexes completed at Tuscan Village. Along with retail and residential, the above centers are also scheduled to, among other uses, have an office component. Perhaps one (or all) of these centers will spark new construction of spec office buildings.

As stated earlier, the majority of the recent industrial construction has been carried out by owner/users. To even a greater degree than the office market, the occupancy rate in the industrial sector is reaching capacity. Despite the high occupancy rate, rents still have not reached a point for investors to seriously consider developing spec multi-tenant buildings. If demand continues to increase, this will undoubtedly change.

As occupancy continues to climb, for both the office and industrial markets, new construction will be a welcomed addition to businesses looking to grow or relocate to New Hampshire. Hopefully, the large mixed use developments will be encouraged by the high occupancy rates and will take on the spec development challenge.

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