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New Hampshire Seacoast commercial market overview and 2020 forecast - by Kent White, Christian Stallkamp and Caitlin Burke

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2019 was our most successful year for The Boulos Company's New Hampshire and Maine offices with close to \$500 million in sales and lease transactions. We expanded our Portsmouth office team by hiring a new associate/assistant and we updated our website to create an easy and user friendly experience for visitors. We are proud to continue to be the market leader in the New Hampshire Seacoast and Maine commercial real estate markets.

2019 was also another strong year in the New Hampshire Seacoast commercial real estate market. Demand continues to outweigh the supply across all property types with vacancy rates for both office and industrial space at all-time lows, which is driving sale and lease prices up and continuing to force tenants and buyers to be creative and patient in their search for property.

New Hampshire Seacoast Industrial Overview: The vacancy rate for industrial space in the Seacoast continues to hover just below 6% with the 2019 year-end vacancy rate being 5.7%. Further, the average Seacoast industrial vacancy rate over the past five years is 5.54%. These numbers show a tight industrial market, a trend that has continued for some time now. The impact of the continued low vacancy rate results in an increase in the average asking lease rates. Over the same five year period, they have increased from \$5.04 per s/f NNN, in 2015 to \$6.25 per s/f NNN in 2019.

Currently, there are two larger industrial buildings for lease at 8 Marin Way in Stratham and 121 Technology in Durham. These two properties represent a total of 363,750 available s/f. If we were to back those availabilities out of the equation, the Seacoast industrial market would be reporting a 3.6% vacancy rate!

The major challenges for the Seacoast industrial market are:

- The lack of industrial land with city water/sewer along the I-95 corridor
- The price of the land and length of time for permits approvals
- Construction costs incurred from site work, engineering, the high cost of materials, and the lack of available subcontractors
- The ability to finance both land and building for projects near Portsmouth

New Hampshire Seacoast Office Overview: The overall Seacoast New Hampshire office market experienced another strong year in 2019 with decreasing vacancy rates, increasing lease rates, and high demand. Since The Boulos Co. started tracking the office market in 2000, the vacancy rate hit

an all-time low in 2019 at 7.3%. This rate is down from 8.8% in 2018 and the historically high level of 20.3% in 2009. The average asking lease rate has also hit a historic high of \$14.39 per s/f which is up from \$14.12 per s/f in 2018. It's interesting to note that one building, 121 Technology Dr. in Durham, accounts for 27% (178,003 s/f) of the overall Seacoast office vacancy rate. If this one building's vacancy were removed, the overall Seacoast vacancy would drop to 5.3%!

Noteworthy topics include:

- Are low vacancy rates a good thing? It depends on who you ask. Landlords love low vacancy but not tenants! A healthy vacancy rate depends on the market but 6-10% is generally considered a healthy market. When vacancy rates dip below 6%, it starts to put pressure on expanding companies who can't find adequate space for their growing businesses. This pressure is apparent in the N.H. Seacoast, where the office market is very small. Companies may be forced to relocate to other N.H. markets or even out of state altogether. Ultimately, this exodus would have a trickledown effect on the local economy.
- Downtown Portsmouth is back! For the better part of the last twenty years, we have seen large downtown office tenants relocate to the "suburbs," especially to the Pease Tradeport. Cost and parking were the major concerns with most larger office tenants paying for their employee parking and lease rates and operating expenses are generally 25% higher downtown. Recently we have started to see this trend change. With more of an emphasis on a live/work/play environment, employers have been investing more into the amenities their employees want in an effort to keep and attract talent. Developers are taking notice and a few of the major proposed projects currently underway in downtown Portsmouth are driven by office tenants.

Seacoast New Hampshire Forecast: In 2020, we can expect continued challenges from 2019. A lack of good-quality office and industrial space makes it difficult for growing companies to find an adequate location. While low-interest rates and demand for new commercial space remain strong, high construction costs and the tight construction labor market continue to be limiting factors impacting new construction starts. Investment product remains in high demand which has created an ideal time for owners to consider selling at what may be the top of the market.

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