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## **Darwinian selection process plays out in the Southern N.H commercial real estate market - by Mike Harrington**

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As we all experience the effects of the COVID-19 pandemic it becomes all too apparent this virus, while indiscriminate in its spread across our country, its impact to business is disproportionately affecting some businesses versus others. It's almost like the virus is picking winners and losers. As this Darwinian selection process plays out we can begin to see a direct impact on the commercial real estate business both here in New Hampshire and across most of the United States.

Bricks and mortar retailers are experiencing bankruptcies while on-line retailers such as, Amazon, eBay, Etsy and Wayfair, are expanding headcount and square footage throughout the country and throughout New Hampshire.

Restaurant and bar owners are cutting staff and seating capacity while on-line food delivery services such as Hello Fresh, Blue Apron and my personal favorite based in Concord, N.H., Local Basket are experiencing record growth as more and more people cook and dine from home.

Movie theaters, fitness centers, sports stadiums and casinos have all been shut down due to social distancing challenges. As they slowly re-open they are required to cut seating capacity, cut or eliminate concessions (cutting into profits that are the "bread and butter" of their industry). While Netflix, YouTube, TikTok, Peloton and online gaming have all exploded. Stay at home entertainment and fitness continues to be favored by the American consumer. The pendulum has swung quickly and violently in the "on-line" direction and it appears will not fully swing back once a vaccine is found. The shift in spending habits is real, expected to last and the impact to commercial real estate will be profound.

"As goes the consumer, so goes commercial real estate". (I'm sure some Greek philosopher once said or maybe it was Sam Zell?) Anyway, the losers in this correction have not yet been fully determined but it's clear, restaurants, bars, hotels, convention centers, sport venues, airlines, bus and public transportation have all taken significant body blows. And, the owners of real estate who lease to these businesses are in for a black eye as this market correction most predictably will

include lower rents and greater rent concessions thereby lowering returns.

The most notable winners have been and continue to be owners of warehouse distribution facilities, bio-tech manufacturing facilities, suburban office and self-storage facilities.

In my NEREJ 2019 Industrial Spotlight article I highlighted the recent trend in New Hampshire of converting former “big box” retail into warehouse distribution centers and speculated how this could expand to include big anchor stores in malls such as JC Penney, Macy’s and Sears. I also speculated that new construction could be warranted in Southern New Hampshire as high bay distribution space continues to experience historic high occupancy levels.

Fast forward to 2020, sure enough mall owners are considering leasing space for fulfillment centers and several large warehouse distribution projects are currently in-front of planning boards seeking approval with even more prospects in the market searching for space.

The most notable project comes from national developer, Hillwood Investment Properties, with plans to create the Hudson Logistic Center, currently the Green Meadow Golf Club in Hudson, N.H. The plan calls for the development of three buildings totaling over 2.5 million s/f with Amazon operating out of two buildings in approximately two million s/f. Hopefully, a collaborative effort between the town and the developer to settle any traffic or logistical issues will prevail, allowing this transformative project to move forward. Residents and town officials only have to look to Londonderry to see the positive impact warehouse distribution development can have for the town and its taxpayers.

The second project of note is the development of an 800,000 s/f warehouse distribution center located in Kingston, N.H. to a yet-to-be disclosed tenant. The property is 112 acres and can accommodate more development assuming the initial phase of the project is approved.

In summary, the Southern New Hampshire industrial market continues to remain strong as the digital consumer shows no sign of weakening. The trend of “de-malling” the mall will continue as anchor stores close and owners shift to non-traditional retail uses and the return of the suburban office user is predicted to experience a strong bounce back as the work “close” to home trend gains traction and work “from” home trend wains.

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