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New Hampshire Seacoast 2021 market outlook - by Kent White and Christian Stallkamp

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The global COVID-19 pandemic created many challenges for the commercial real estate industry. Many small and local businesses have closed or continue to hang on to the hope that business will resume to “normal”. “Essential” businesses have prospered in comparison (big-box retailers, grocery stores, home improvement businesses and the life sciences industry). Commercial real estate will

be defined by market segments more than ever before. The industrial, office, retail, hospitality, restaurant and multi-family markets will all be impacted differently. These impacts will have a trickledown effect on how each segment is viewed by investors, users and lenders alike.

Seacoast NH Office Market:

The vacancy rate for the Seacoast at year-end 2020 was 10.6%. 2020 however, was not a typical year and cannot be used as a reliable measure for the year ahead. There are many unanswered questions as we re-enter a post-COVID world in 2021. Will office tenants return to their office space at pre-COVID occupancy levels, or will tenants continue to work remotely? This is the biggest question for 2021 and could have significant short- and long-term effects on the office market. Many businesses are still taking a “wait and see” approach before making long-term decisions. As we enter 2021, the majority of office users are still working remotely. The Pease Tradeport has always been the leading barometer in the Seacoast. A quick review of the office parking lots at Pease indicates that only 10%-20% of the multi-tenanted office buildings are currently occupied. Will these office tenants return to their space or ultimately decide to downsize their office footprint? Many companies will undoubtedly view this as an opportunity to reduce their rent expense, if they have been just as productive working remotely as working from a traditional office space. Conversely, will companies value the office environment for team building, collaboration, creativity, and efficiency that is hard to duplicate while working remotely?

The answers will start to come over the next 12 to 18 months. It is likely that a wave of sublease space will become available. This will be followed by companies who have decided to downsize as their leases expire. Simultaneously, demand for office space, which has been extremely low since the pandemic started, will increase slightly as those companies that are downsizing enter the market to look for smaller space and companies that have prospered during the pandemic look to increase their office footprint. We also expect to see an increase in demand from out-of-state companies looking to relocate from their more urban environments.

Although 2021 will most likely be difficult for the office market, the New Hampshire Seacoast typically handles real estate downturns better than most. We remain optimistic that the long-term impact will be limited, and the New Hampshire Seacoast will return to pre-COVID levels much faster than many larger metropolitan markets in the United States.

Seacoast Industrial Market

The Seacoast New Hampshire industrial market remains extremely tight even with the uncertainty of the COVID-19 pandemic. The 2020 year-end vacancy rate for industrial space in the Seacoast is just 3.9%. This low vacancy rate leaves companies scrambling to renew their current space or with limited options when looking to relocate.

The low vacancy rates have caused an increase in industrial rents. Industrial buildings having clear heights over 20 feet, can support high-bay warehousing, and have good access to I-95 have seen greater increases than older-style buildings.

The Seacoast is experiencing several industry trends, which are putting additional demand for industrial space.

- Companies are increasing inventory in response to supply chain disruption as a result of COVID.
- The surge in e-commerce and last-mile logistical operations will result in retail companies growing online sales and continued growth for companies that support large box retailers.
- Businesses in the life sciences and medical sectors that have received government grants and/or contracts will increase manufacturing and the production of new product.

Challenges exist for ground-up industrial development in the Seacoast especially along the I-95 corridor, creating obstacles to reach a tenable price point. These challenges include lack of industrial land with city water/sewer, the cost of industrial land, the cost of construction and raw materials, and high labor costs.

Finding available industrial land will be a challenge in 2021. Lack of product and strong demand, will cause lease rates to rise in all Seacoast towns. This is also true for sale prices which have increased by as much as 30-50% in just four years. While, the challenges faced along the I-95 corridor have left new construction pricing too high in the past, we believe tenants who want or need to be in this market will elect to pay the higher build-to-suit pricing.

Forecast:

While it is difficult to predict how the commercial real estate industry will be affected both short- and long-term, we expect to gain insight over the next 12 months as we return (hopefully!) to some sense of normalcy. We expect short-term problems will remain for the office, restaurant, and hospitality industry, but industrial, multi-family, and investor markets will remain in high demand.

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