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Spring 2021 N.H. Seacoast market report - by Caitlin Burke

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Company

In the past month, an optimistic undertone is starting to creep into conversations with clients, family, and friends. The usual anticipation of spring has a whole new meaning this year when coupled with the vaccination rollout and being able to point to progress on the battle against COVID-19. We are seeing some business owners and employers moving past the “wait and see” approach that they have been stuck in for the last year and starting to plan for going back to the office by the end of 2021.

The office and industrial markets are two very different climates as we enter this new phase of the pandemic. While office users might be just starting to consider life after COVID-19, industrial users have been full steam ahead for the past twelve months. If anything, the industrial market has become more in demand and tighter due to the pandemic and an increase in distribution and logistics companies serving the Seacoast. It has been a challenging year working through these two parallel environments, and we are finding ourselves thankful to be generalists versus specialists when it comes to commercial real estate.

Seacoast Office Market

We are starting to see a few more tenants looking in the market for new space (especially compared to the last 12 months) and others discussing coming back to the office this summer and early fall. Even with all of this new buzz, the real implications of COVID-19 are not behind us yet. We have noticed, especially in larger office footprints, that most employees are still working remotely. According to The Boulos Company’s annual Market Outlook released in January 2021, the Seacoast vacancy rate at year-end 2020 was 10.6%. Although that was an increase year over year, in talking with businesses at the first of the year, many were still taking a “wait and see” approach before making long-term decisions. The Boulos Company also conducted a COVID Survey from December 2020 to February 2021. Out of the 63 participants, a little over half of them were still working remotely full time and 19% were working remotely part of the time. Only 30% reported

working in the office full time. Even with the optimism spinning around us about life looking more normal in 2021, I think many office users, especially the larger companies, still do not have formal plans and may not ever go back to full capacity.

We have noticed on the Seacoast that most activity trickling back to the office market has been from smaller tenants (less than 10,000 s/f). We believe this because the smaller the office size and footprint, the easier it is to control or implement changes to deal with COVID-19. I am confident that because of the large number of small businesses in the Seacoast of New Hampshire and the lack of reliance on public transportation, our office market will “bounce back” to full occupancy quicker than the Greater Boston market.

The Pease Tradeport has always been a strong barometer for the Seacoast office environment. At the start of 2021, a quick review of the office parking lots at Pease indicated that only 10%-20% of the multi-tenanted office buildings are currently occupied. In the last month, upon closer examination of parking patterns, it's clear that the multi-tenanted offices, take One New Hampshire Ave., for example, have fuller parking lots. One New Hampshire Ave. is broken up into many small office suites, catering to smaller employers in the 2,000 – 5,000 s/f range. This evidence supports the theory that the smaller the office, the more likely the employees will be working from it. The larger single-tenant properties have much fewer cars parked outside which leads us to believe the majority of their employees are working remotely.

The “wait and see” hold pattern remains for what is to come for change to the office market. Will these larger companies take this as an opportunity to reduce their rent expense if they have been just as productive working remotely as working from the office? I think it is fair to expect to see an increase in office vacancy throughout 2021 and into 2022, particularly in the larger tenant spaces. Again, I don't think the Seacoast will suffer the same impact of this pandemic as the larger cities, and our COVID survey results indicate the same. In our Boulos COVID survey, 60% of participants selected say they will be working in the same square footage as pre-pandemic when they go back to work.

Seacoast Industrial Market

The 2020 year-end vacancy rate for industrial space in the Seacoast is just 3.9%, according to our 2021 Market Outlook. The low vacancy rates have caused an increase in industrial rents. In a deal this January in Portsmouth we achieved a \$10.25 per s/f NNN rent for a 25,000 s/f warehouse building with minimal office space. For perspective, we reported in our 2021 Market Outlook that the average price per s/f for industrial space in Portsmouth is \$7.00/SF NNN. With an influx of distribution and last-mile delivery companies looking in the area, tenants might only have one or two (if they are lucky!) options to consider. To meet their criteria, they will be forced to be aggressive on pricing and deal terms if they want to secure the space.

For the past few years, we saw tenants not willing to pay increased industrial rents, however in late 2020 and thus far in 2021, we are seeing companies offering asking, or above asking, rents. This has become a necessity to secure space in this market. Now that rents are increasing, the costs

associated with new construction might be justified in 2021-2022. The one continual challenge is the lack of industrial land on town water and sewer along I-95 in New Hampshire. Although it might appear otherwise to an out-of-state developer, there are minimal land options for new industrial development in the New Hampshire Seacoast corridor.

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