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CB Richard Ellis' 2009 New Hampshire commercial real estate market forecast

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The following is a summary of CB Richard Ellis' New Hampshire Commercial Real Estate Market Survey for year-end 2008.

The Southern New Hampshire commercial real estate outlook for 2009 will decline but at a much slower rate than the overall U.S. economy due to New Hampshire's diverse base of businesses. New Hampshire's office and industrial markets remain somewhat insulated from a significant downturn and will decline only slightly in 2009, with growth predicted to occur in the healthcare and defense sectors.

Office Market Forecast

The Southern New Hampshire office market, comprised of over 27 million s/f of space, declined slightly over this past year with vacancy increasing from 13.7% to 14.2% in the I-93/Rte. 3 corridor and 16.3% to 18.4% in the Seacoast.

This increase in vacancy is caused by an overall lack of demand from new office users entering from outside the market, coupled with an increase in sublease space coming onto the market from financial companies and further consolidation in the mortgage industry.

Bedford and the Pease Tradeport were two of the only submarkets that experienced a decrease in vacancy in 2008. Aggressive marketing strategies and improved infrastructure allowed Bedford to capture several Manchester office tenants including Health Dialog and USI. Pease saw a drastic decrease in its vacancy rate due in part from a migration of downtown and suburban Portsmouth office users to the Tradeport.

Most of the Southern New Hampshire office leasing activity occurred as a result of tenants "trading spaces" within the market, not as a result of new tenants entering the market from outside the region.

Office tenants that experienced organic growth in 2008 were the United States Passport Center, which expanded into 75,000 additional s/f at 207 International Dr. in the Pease Tradeport, and Fairpoint Communications, which expanded by 27,000 s/f at City Hall Plaza in Manchester.

In 2009, the office market is predicted to decline slightly due to continued fallout from the financial crisis. Vacancy rates may reach 16% in the I-93/Rte. 3 corridor and 20% in the Seacoast as more sublease space becomes available and further consolidation occurs. However, significant leasing activity will continue from within the existing base of tenants.

Tenants will be offered incentives in 2009, including discounted lease rates, generous tenant

improvement allowances and free rent.

Industrial Market Forecast

The Southern New Hampshire industrial market, comprised of approximately 57.5 million s/f of space, declined in 2008. Vacancy rates increased from 12.6% to 13.9% for the I-93/Rte. 3 corridor and from 8.5% to 11.4% in the Seacoast. However, demand still remains strong for well-located warehouse and manufacturing properties.

The defense, aerospace, medical and specialized manufacturing sectors experienced the most growth in 2008. Albany Engineered Composites recently leased an additional 84,000 s/f on Airport Dr. in Rochester. Insight Technology expanded its location at 9 Akira Way in Londonderry by 50,000 s/f. Salient Surgical Technologies expanded into a new 56,000 s/f build-to-suit at 180 International Dr. at the Pease Tradeport. Atrium Medical relocated its U.S. operations to 29 Flagstone Dr., a 44,000 s/f building in Hudson.

Industrial buildings continued to be repositioned into office, retail and other uses in 2008. Liberty Woods, the 240,000 s/f former home of Amphenol, located at 44 Simon St. in Nashua was repositioned into a multi-tenant office, flex and manufacturing facility. At the Pease Tradeport, the 102,000 s/f former Flextronics manufacturing facility was converted into office space for John Hancock. In Dover, the Moore building on Locust St. was redeveloped into a multi-tenanted office building. 14 Kelly Rd. in Salem, a 70,000 s/f warehouse/freezer facility was demolished and converted into retail.

The most significant example of this industrial conversion trend is the repositioning of the former Jac Pac Foods plant on Hancock St. in Manchester. The property is now being razed to make room for the Elliot at River's Edge, the Elliot Hospital's future ambulatory care operation. Also located at the site will be a medical office building, an apartment building and a retail store.

When complete, the project is estimated to cost \$100 million and will help spur activity in Manchester's Central Business District.

Despite this activity, the New Hampshire industrial vacancy rate is predicted to trend upward slightly in 2009. Leasing velocity will slow as tenants take a more cautious approach to their real estate decisions, although demand should be strong for smaller availabilities. Landlords will become more accommodating by keeping lease rates static in order to retain and attract quality industrial tenants.

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