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Organic is the buzz word for the current real estate market in all sectors of New Hampshire

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"Organic" is not just the buzz word for locally grown produce and other foods, but is also the buzz word for the current real estate market in all sectors of New Hampshire.

Essentially, what is occurring in the North Country, the Upper Valley, the Seacoast and the Monadnock region are transactions that are being completed by existing New Hampshire companies. Most of the activities are small, but viable start-ups, provided by the independent entrepreneurs that New Hampshire is famous for.

The Upper Valley/Dartmouth region has witnessed many transactions that have germinated from the outgrowth of local bio-tech companies that were incubated at the Dartmouth Regional Technology Center, which is a joint venture between Dartmouth College, North Country Council and Grafton County Economic Development Corporation.

Most notably, the Mascoma Corporation, the nation's leading ethanol research organization, recently leased 3 floors, equaling 33,000 s/f of space, in the newly constructed 54,000 s/f "Gateway Center", located in Lebanon. In addition to this blockbuster deal, there are many smaller office/lab leases being finalized in the 1,500-8,000 s/f range for other bio-tech offshoots from research being conducted by the Dartmouth Medical School, Thayer School of Engineering and Tuck School of Business, all graduate programs of Dartmouth College.

Although, office/lab space in the Upper Valley remains active, the light industrial market has witnessed a spike in the vacancy rate from 1- 2% to 4-5%. Even still, that only represents total available space in the market between 30 - 50,000 s/f. Given other national markets, the Upper Valley feels blessed with its continued organic growth.

In putting together this report, I had the chance to speak with Andy Smith, CCIM of Smith-Peabody Real Estate in Franconia. Andy has a great deal of experience and success in the North Country market.

Andy said, "There is no question we are being challenged, especially in the retail segment of our market, but in other areas, we continue to see a modest amount of activity." Andy went on to say, "Similar to the Upper Valley, our market has been driven by local businesses and local entrepreneurs, in addition to local investors who have confidence and knowledge in the market."

Andy reported several investor sales, in the 8-10 % cap rate level to local investors, based on state agencies and other qualified tenants. He went on to say, "There is no emotion in the market at this time. Based on requirements of local lenders, any deals that are being accomplished are strictly based on the numbers."

When asked what will it take to make a return of stronger market activity, he said, "Consumer and business confidence is #1, followed by job creation and a more active lending environment."

That seems to be the sentiments of many economic experts throughout New Hampshire.

However, with the overall unemployment rate in New Hampshire of 6.8% as of June 2009, compared to just under 10% for the country, with projections to go over that rate, New Hampshire is weathering this 2009 recession storm rather well. The main reason that is cited is that New Hampshire has a diversified, low cost economy. We are not as heavily invested in old technology with aging infrastructures as other New England and national areas, which in the end has allowed New Hampshire a more competitive advantage and a slightly less impact to the recession.

Another valued colleague was contacted for this article, David Choate of Grubb & Ellis/Coldstream RE Advisors in Portsmouth. David has had years of experience in the Seacoast area of New Hampshire. When asked about trends and recent transactional experiences David said, "Similar to the Upper Valley, we seem to have some insulation to national trends. The Seacoast is a diversified economy with many strong local companies, a great tourism economy and a quality of life that is incredibly attractive to business owners and entrepreneurs." David reports that most of his activity has been in office leasing over the 1st and 2nd quarters of 2009. This is reinforced by Seacoast office vacancy statistics that indicated a vacancy factor in the 3rd quarter of 2008 of approximately 13%, which has trended down to a vacancy of 11% in the 2nd quarter of 2009.

Choate said, "The activity has been created by many internal or organically developed New Hampshire based companies, relocating due to the quality of buildings available, at rental rates that are 20-30% off of their highs in 2006-07. Similar to many other markets in New Hampshire, there continues to be commercial real estate activity, but values have been reduced to match the demands from the market. There is no other way to say it; New Hampshire is a buyer and/or tenant's market at the mid-term of 2009."

The Seacoast office market activity comes with a mixed blessing.

Even though vacancies are trending down, there is virtually no new office construction being planned or built. The future hope is as existing inventory gets absorbed, leasing rates will elevate, enabling more space to be constructed.

The signs of the recession losing its grip on New Hampshire will be when we can start to report new construction activity, in all categories. But everyone agrees, it will take patience this time around.

David's final comments were based on the optimism that some retail developers have with the recently enacted 6.5% sales tax in neighboring Massachusetts. The hope is that the seacoast may capture an increase in future market share from out-of-state buyers.

Finally, the trends for this current period in the New Hampshire economy seems to be:

- 1) Seek out local interest and grow the economy "organically", because out of state interest will continue to be very limited.
- 2) Provide continuing opportunity to bolster local consumer confidence, by provided tailored goods and services to the local market.
- 3) Continue to seek economic private/public partnership to fuel the support our local New Hampshire companies need now and in the future, through private sector lending and programs that are offered by organizations such as the Small Business Administration.

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