



THE BOULOS
COMPANY

2020

SEACOAST NEW HAMPSHIRE
MARKET OUTLOOK

A MESSAGE FROM OUR TEAM

Welcome to The Boulos Company's 2020 Seacoast New Hampshire Market Outlook. This annual publication seeks to explain the industrial and office commercial real estate markets in New Hampshire's Seacoast Region. It not only publishes the current vacancy rates and lease rates, but also summarizes trends in the office and industrial markets and predicts the coming year's market performance. The goal is to provide clients and commercial real estate professionals with clear, concise and accurate information and serve as a benchmark as they make decisions throughout the year.

2019 was another strong year in the Seacoast commercial real estate market. Demand continues to outweigh the supply across all property types with vacancy rates for both office and industrial space at all-time lows, which is driving sale and lease prices up and continuing to force tenants and buyers to be creative and patient in their search for property.

In 2020, our clients can expect continued challenges from 2019. A lack of good-quality office and industrial space makes it difficult for growing companies to find an adequate location. While low-interest rates and demand for new commercial space remain strong, high construction costs and the tight construction labor market continue to be limiting factors impacting new

construction starts. Investment product remains in high demand which has created an ideal time for owners to consider selling at what may be the top of the market.

2019 was our most successful year for The Boulos Company's New Hampshire and Maine offices with close to half a billion dollars in sales and lease transactions. We expanded our team by hiring a new associate and are now proud to have three full-time brokerage professionals and an amazing support staff in our Portsmouth office. We're looking forward to continued growth in 2020.

We would like to sincerely thank all of our clients and the people in the Seacoast community that we had the pleasure of working with this past year. We look forward to continued success in 2020!

Sincerely,



Kent White & The Portsmouth Team



Kent White
Principal Broker, Partner



Christian Stallkamp
Senior Broker



Caitlin Burke
Associate



Katherine Gemmecke
Associate



Lisa Kurdt
Office Manager



The **BOULOS** *Beat*

The Boulos Beat podcast explores Maine and New Hampshire's commercial real estate world through in depth interviews with its movers and shakers.

Hosted by Greg Boulos and guest hosts, this is a must listen for anyone interested in this industry.

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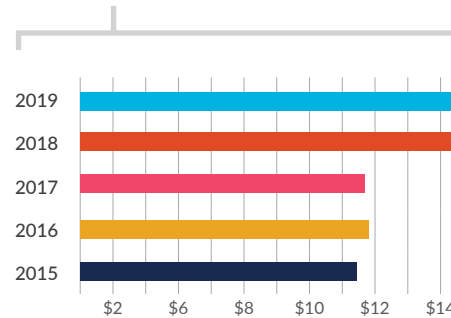
Photo: Martingale Wharf, Portsmouth, NH

SEACOAST OFFICE MARKET SUMMARY

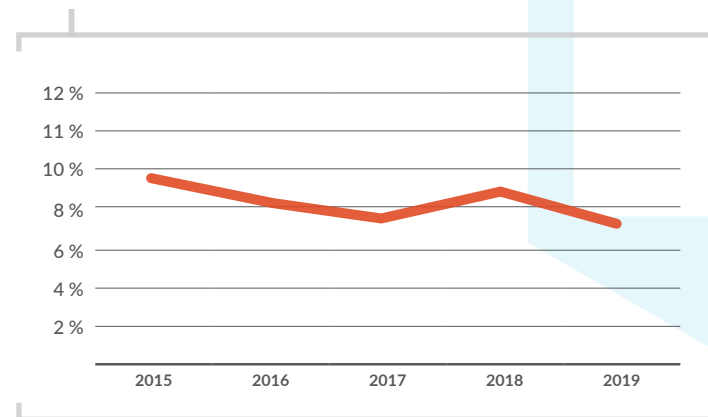
2019 SEACOAST NH OFFICE MARKET SNAPSHOT

SUBMARKET	TOTAL SQ. FT.	VACANT (SQ. FT.)	VACANCY (%)	AVERAGE ASKING RENT (NNN)
Dover	1,665,205	46,204	2.8 %	\$11.50
Durham	184,688	178,003	96.4%	\$12.75
Exeter	506,692	18,572	3.7 %	\$13.50
Greenland	70,947	3,247	4.6 %	\$11.50
Hampton	480,899	23,587	4.9 %	\$11.50
Newington	104,153	14,887	14.3 %	\$17.00
Newmarket	65,000	1,156	1.8 %	\$8.00
North Hampton	93,459	10,204	10.9 %	\$11.50
Pease	2,145,484	120,623	5.6 %	\$17.50
Portsmouth	2,255,376	106,916	4.7 %	\$19.50
Rochester	560,754	20,876	3.7 %	\$7.50
Seabrook	70,854	-	0.0 %	\$10.50
Somersworth	233,510	4,915	2.1 %	\$9.25
Stratham	434,156	97,640	22.5 %	\$12.00
TOTAL OFFICE	8,871,177	646,830	7.3 %	\$14.39

HISTORICAL AVERAGE OFFICE ASKING RENT (NNN)



SEACOAST NH HISTORICAL OFFICE VACANCY RATES



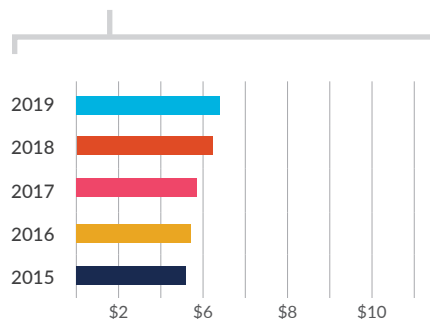
*As of 12/15/2019

SEACOAST INDUSTRIAL MARKET SUMMARY

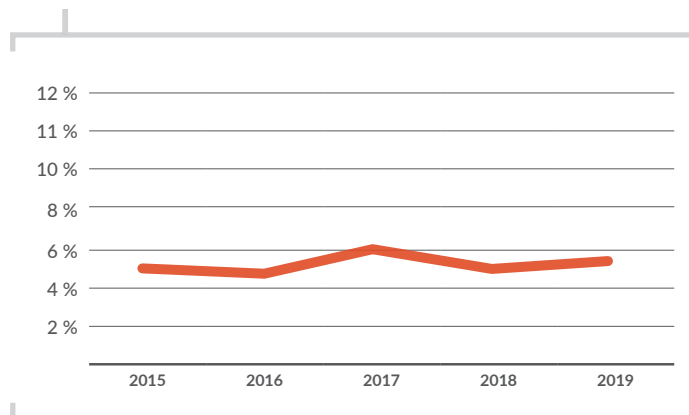
2019 SEACOAST NH INDUSTRIAL MARKET SNAPSHOT

SUBMARKET	TOTAL SQ. FT.	VACANT (SQ. FT.)	VACANCY (%)	AVERAGE ASKING RENT (NNN)
Dover	2,324,865	87,473	3.8 %	\$6.00
Durham	310,000	263,000	84.8 %	\$6.75
Exeter	1,093,260	44,380	4.1 %	\$6.25
Greenland	774,145	1,500	0.2 %	\$6.00
Hampton	906,170	13,296	1.5 %	\$6.00
Newington	1,285,399	24,270	1.9 %	\$6.25
Newmarket	140,204	-	0.0 %	\$6.00
North Hampton	185,912	12,268	6.6 %	\$5.75
Pease	1,548,849	8,000	0.5 %	\$7.25
Portsmouth	2,123,018	59,955	2.8 %	\$6.75
Rochester	2,190,161	126,139	5.8 %	\$5.00
Seabrook	1,769,754	138,175	7.8 %	\$6.75
Somersworth	1,822,925	92,253	5.1 %	\$5.00
Stratham	1,058,735	125,750	11.9 %	\$6.75
TOTAL INDUSTRIAL	17,533,397	996,459	5.7 %	\$6.25

HISTORICAL AVERAGE INDUSTRIAL ASKING RENT (NNN)



SEACOAST NH HISTORICAL INDUSTRIAL VACANCY RATES



*As of 12/15/2019

SEACOAST OFFICE MARKET OVERVIEW

KENT WHITE *Principal Broker, Partner*



The overall Seacoast New Hampshire office market experienced another strong year in 2019 with decreasing vacancy rates, increasing lease rates, and high demand. Since The Boulos Company started tracking the office market in 2000, the vacancy rate hit an all-time low in 2019 at 7.3%. This rate is down from 8.8% in 2018 and the historically high level of 20.3% in 2009. The average asking lease rate has also hit a historic high of \$14.39/sf which is up from \$14.12/sf in 2018. It's interesting to note that one building, 121 Technology Drive in Durham, accounts for 27% (178,003 sf) of the overall Seacoast office vacancy rate. If this one building's vacancy were removed, the overall Seacoast vacancy would drop to 5.3%!

Are Low Vacancy Rates a Good Thing?

It depends on who you ask. Landlords love low vacancy but not tenants! According to CBRE, the national office vacancy rate average is 12.2%, with the lowest vacancy rates in San Francisco, California at 4.8%, San Jose, California at 5.9% and Charlotte, North Carolina at 6%. A healthy vacancy rate depends on the market but 6-10% is generally considered a healthy market. When vacancy rates dip below 6%, it starts to put pressure on expanding companies who can't find adequate space for their growing businesses. This pressure is apparent in the New Hampshire Seacoast, where the office market is very small. To illustrate this point, the NH I-93/Route 3 market is almost three times larger than that of the New Hampshire Seacoast. Companies may be forced to relocate to other New Hampshire markets or even out of New Hampshire if they can't find space. Ultimately, this exodus would have a trickledown effect on the local economy.

Downtown Portsmouth is Back!

For the better part of the last twenty years, we have seen large downtown office tenants relocate to the "suburbs," especially to the Pease Tradeport.

Cost and parking were the major concerns with most larger office tenants paying for their employee parking and lease rates and operating expenses are generally 25% higher downtown. Recently we have started to see this trend change. With more of an emphasis on a live/work/play environment, employers have been investing more into the amenities their employees want in an effort to keep and attract talent. Developers are taking notice and a few of the major proposed projects currently underway in downtown Portsmouth are driven by office tenants. The two major examples include 299 Vaughan Street, which is currently under construction and is primarily an office building that will be anchored by Heinemann Publishing, as well as the proposed McIntyre redevelopment which, as reported by the local newspapers, includes HubSpot as their anchor tenant.

Another notable project that will add more office space to downtown is 60 Penhallow Street at Brick Market. This exciting new development will consist of office space on the upper floors and an open public market on the ground floor. Inspired by the maritime industry, the new building design is unlike any other building in Portsmouth if not in all of New England.

The 2020 Forecast

Expect more of the same! The overall market should remain stable in 2020, with vacancy rates remaining the same, if not slightly less than in 2019. Portsmouth/Pease Tradeport will continue to be the most desirable office market while Rochester remains the most challenging. Lease rates will continue to increase as confident landlords will hold firm on higher asking rates and offer fewer lease concessions. As mentioned above, the low vacancy will place pressure on office tenants looking for available space in the market. Tenants should start their search early and be ready to move quickly when a good opportunity presents itself.



PHOTOS (L-R): 46 Maplewood Avenue, Portsmouth; West End Yards, Portsmouth; Brick Market, 60 Penhallow Street, Portsmouth (proposed developments)

SEACOAST INDUSTRIAL MARKET OUTLOOK

CHRISTIAN STALLKAMP
Senior Broker



The vacancy rate for industrial space in the Seacoast continues to hover just below 6% with the 2019 year-end vacancy rate being 5.7%. Further, the average Seacoast industrial vacancy rate over the past five years is 5.54%. These numbers show a tight industrial market, a trend that has continued for some time now. The impact of the continued low vacancy rate results in an increase in the average asking lease rates. Over the same five year period, they have increased from \$5.04/sf NNN, in 2015 to \$6.25/sf NNN in 2019.

To add perspective, the overall industrial market in the Seacoast is just above 17.5 million sf. Compared to the Greater Boston industrial market, which is approximately 175 million sf, the Seacoast industrial market represents a small submarket to that of Boston. *Note: For reporting purposes, we track all industrial buildings that are over 10,000 square feet, excluding universities and public works buildings.*

Currently, there are two larger industrial buildings for lease at 8 Marin Way in Stratham and 121 Technology in Durham. These two properties represent a total of 363,750 ± available square feet. If we were to back those options out of the equation, the Seacoast industrial market would be reporting a 3.6% vacancy rate.

The major challenges for the Seacoast industrial market are:

- The lack of industrial land with city water/sewer along the I-95 corridor
- The price of the land and length of time for permits approvals
- Construction costs incurred from site work, engineering, the high cost of steel, and the lack of available subcontractors
- The ability to finance both land and building for projects near Portsmouth

Communities outside of Portsmouth, such as Dover and Rochester, have dealt with the inability to get new construction projects off the ground. The major issue is that the cost of new construction can be double that of buying an existing building. So for those interested in new construction, they may have to put up additional funds, which can become cost-prohibitive, or end up shelving a project after completing the bulk of the approval and due diligence processes.

Faced with these challenges, communities are now becoming creative and focusing on unique financing options to bridge the gap between new construction prices and market comparables. A recent example is a deal we worked on in Rochester. This deal was structured so that the City of Rochester bought vacant land and built a building for a tenant who executed a five-year lease. After the five-year lease term, the tenant will purchase the building at a predetermined sale price. This is a win-win situation in that the City will receive the property taxes on the building and jobs for the community, and the tenant will be able to own the building five years down the road with an initial financing package that is less cumbersome than what they would have received through conventional financing.

2020 Forecast

We expect the market conditions in the Seacoast to remain tight, and as a result, lease rates will continue to escalate as will the cost of purchasing existing buildings. Buyers and tenants who aren't in the market early enough will find themselves with limited options, thus creating more renewals at higher rates and longer lease terms.



PHOTOS (L-R): 9 Bactchelder Road, Seabrook; 20 Durham Road, Pease Tradeport, Portsmouth; 8 Main Way, Stratham

DOVER DEVELOPMENT PROJECTS

CAITLIN BURKE Associate



In last year's Market Outlook, we highlighted downtown Portsmouth's growth and pending new commercial developments. While there is still a lot of buzz about change and growth in Portsmouth, Dover, New Hampshire deserved the spotlight for this year's report. According to the Dover Economic Development Office, Dover is the fastest growing city in New Hampshire with more than \$100 million in commercial development underway in 2019 and 2020. For a brief overview, it is worth watching [Dover Economic Department's YouTube video summary](#).

In downtown Dover alone, there are approximately twelve mixed-use projects proposed or underway in 2020. The majority are driven by housing, with residential apartments in almost all twelve. Most notably, The Orpheum Project constructed on the old Robbins Block, which is scheduled to open in the first month of 2020, has generated a lot of buzz in the city. It is arguably Dover's first luxury living experience, offering amenities such as in-house co-working space, a fitness center, on-site dog grooming and wash stations, and covered parking for residents. These amenities one would expect in large cities, but will be the first of their kind in Dover and likely dictate the fate of some of the other 2020 pending developments.

In my opinion, Dover offers attributes that Portsmouth cannot compete with, therefore driving a lot of this growth. First and foremost, property is more affordable for development or redevelopment than Portsmouth. Dover also offers convenient, daily train access to Boston via the Amtrak Downeaster, with the train station within walking distance from the majority of downtown. Dover has also done a terrific job of promoting development and working with businesses, investors, and developers

to encourage growth and new construction. Due to these efforts, Dover is approachable and widely known and recognized as development and business-friendly.

Couple these attributes with the growing trend nationwide for people to live, work, and play within walkable urban centers, and Dover is arguably the perfect place for new commercial development. It will be interesting to watch these changes take place over the next year and provide examples for successful growth in neighboring cities.





■ APPROVED/UNDER CONSTRUCTION
■ PERMITTED/CONCEPTUAL PHASE

1 THE WATERFRONT DEVELOPMENT
 River Street | 500,000 SF
 475 Units/Mixed Use Space

2 THE ORPHEUM
 104 Washington Street | 157,393 SF
 130 Luxury Apartments & Commercial Space

3 FOSTER'S PLACE
 333 Central Avenue | 33,702 SF
 18 Units/Commercial Space

4 DOVER HEIGHTS
 1 First Street | 91,784 SF
 71 Units & Commercial/Mixed Use Space

5 RIVER'S MARK
 150 First Street | 52,720 SF
 Mixed Use Space

6 PREBLE STREET
 6 Preble Street | 7,244 SF
 Mixed Use Space

7 CHANGING PLACES, LLC
 15-21 Mechanic Street | 26,805 SF
 15 Units/Commercial Space

8 CARNEGIE HOLDINGS
 15 Third Street | 32,534 SF
 22 Units/Mixed Use Space

9 FOURTH STREET DEPOT
 10 Fourth Street | 17,200 SF
 20 Units/Mixed Use Space

10 BRADLEY COMMONS
 557 Central Avenue | 38,420 SF
 39 Units Built/10 More To Be Built

11 GROVE STREET
 6 Grove Street | 31,796
 38 Units/Mixed Use Space

POINTE PLACE *
 50 & 100 Pointe Place | 343,046 SF
 260 Units/Mixed Use Space

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*Pointe Place is not located downtown but it is a significant mixed use development off of Dover Point Road offering housing, retail and office space.

ABOUT US

Northern New England's Commercial Real Estate leader, The Boulos Company, is dedicated to serving commercial real estate owners, investors, and tenants. We provide office, industrial, retail, multi-unit and investment real estate services with New Hampshire and Maine's most comprehensive market intelligence. Services include strategic property leasing and sales advice and execution, property and facilities management, project management, investment management, valuation, appraisal, research, investment strategy, and consulting. Using a managed teamwork approach, we field a group of professionals to answer each client's specific and changing needs. Each of our team member's market knowledge is complemented by proprietary, in-house research databases and an organizational structure designed to harness the firm's collective expertise.



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METHODOLOGY

To the best of our knowledge we have included all Class A and B office and industrial properties that are greater than 10,000 square feet (sf) and are considered investment-grade quality in the shown geographical area. We do not include retail, hotels, car dealers, churches, municipal buildings or schools in our survey. The total average asking NNN lease rate is the weighted average of the submarket average asking NNN lease rate to the total square footage within each submarket. This survey was completed on December 15, 2019. The represented vacant SF includes available space, which includes sublease space.

