NEW HAMPSHIRE BUSINESS REVIEW

THE GRANITE STATE'S BUSINESS RESOURCE

October 18 - 31, 2002

Volume 24, #22

www.nhbr.com

How's the market? It depends on which one

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"How's the commercial market?" is one of the most common questions that I hear from friends and business associates to start a conversation. It's a good question.

"Which commercial market?" is what I might respond. I'm not trying to be facetious. The different segments of the commercial market in southern New Hampshire are behaving in rather different ways. It's up, down or sideways, depending on which part of the spectrum — office, industrial, retail or investment — that you are asking about.

And then, of course, it is dependent on each specific local market. Are you talking about greater Nashua, Manchester, Salem or the Seacoast?

So what is up? Investment properties. Good income properties continue to be in demand. There is more money chasing fewer deals now than in the recent past. I believe that diversification of portfolios is the main reason for this. Investors had little incentive to move out of stocks until they tumbled into this historic bear market. Now, those modest 8 percent to 10 percent cap rates on income properties look pretty attractive. A client recently bid on a $2 million income property that had just come on the market. Within a week he was competing against four other buyers. Why? It was a quality property in a stable market, the cost of capital is low and the existing rents were at or near market rents.

But buyers remain cautious. They will carefully examine the tenant roll for warning signs while factoring in whatever vacancy rate they are comfortable with for the type of product offered.

The industrial market is both up and down. Industrial breaks down into three categories — R&D/flex, manufacturing and warehouse/distribution.

R&D/flex is down, as you would expect since this type of space is high tech's preferred flavor. Several large blocks of R&D/flex space have come on the market, as we see large national corporations close or downsize their New Hampshire facilities. Examples include Corning/Lasertron's 335,000-square-foot Nashua facility that was never finished, Sanmina's 56,000 square feet in Manchester and Apex Telecommunications' 98,000 square feet in Nashua.

Much of the R&D/flex space is sublease space, which leads to discounted market rates, since companies want out now and price their space to move quickly.

The warehouse/distribution end of industrial is much more in balance. I see most of this demand coming from "home-grown" companies that continue to find ways to grow even as the economy suffers. Witness the recent transactions (sold or under contract) of the 85,000-square-foot warehouse facility on Hillside Avenue in Londonderry, the 50,000-square-foot Brita facility in Londonderry, the former Great State Beverage 27,000-square-foot building in Manchester's East Industrial Park Drive or the 25,000-square-foot Hitchiner building in Amherst.

Established industrial parks such as the Manchester Airpark or East Industrial Park are seeing the majority of this activity, while demand remains sluggish for secondary or more isolated sites. Most of the construction activity in the commercial market falls within this segment.

The third segment, manufacturing, is experiencing the same effect as R&D/flex. Some of the larger out-of-state companies are "trimming" expenses, which translates into closing operations in remote locations. We see this with McCord Winn Textron's decision to shutdown their 118,000-square-foot operation on Harvey Road at the Manchester Airport, HP's closing of its 172,000-square-foot Merrimack facility, Nicolet Biomedical GSI's shutdown of 37,000 square feet in Milford and Malden Mill's 83,000-square-foot operation in Hudson.

The manufacturing base within New Hampshire is shrinking, leaving significant blocks of space on the market. There is little demand for this type of industrial space from local companies and very few inquiries from out-of-state firms. The overhang of R&D/flex space and manufacturing space will likely be with us until there is some significant growth in capital spending.

There is an anomaly to the picture that I have just painted in the industrial markets, and that is felt by the smaller user — say a 2,000-to-10,000-square-foot requirement.

Within most of the more established industrial areas throughout the region, there continue to be a limited number of small spaces that will fit this type of user. My hypothesis to explain this is simple. This economy has generated a large number of entrepreneurs who are growing small companies. Layoffs or job insecurity from the larger corporations have encouraged this trend. Talented employees have left to spin off an entrepreneurial enterprise that needs space to operate — small space. Combine this movement with the limited supply of multi-tenant industrial buildings and virtually no new spec construction of multi-tenant facilities, and you get this imbalance — more demand than supply for small space.

So next time you ask "How's the commercial market?", please be specific, or you are likely to get a long answer to a very short question. NHBR

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