



2017

New Hampshire

MARKET OUTLOOK

A MESSAGE FROM CBRE/NEW ENGLAND...

Welcome to CBRE/New England's 2017 New Hampshire Market Outlook. This publication seeks to explain the changing dynamics of commercial real estate throughout Southern New Hampshire. It features a summary of annual market performances and future projections and provides clients with accurate, insightful and up-to-date information regarding the New Hampshire commercial real estate market.

We are committed to a strong business climate in New Hampshire by achieving world-class outcomes for our clients each year. Based on strategic insight and real estate expertise, the New Hampshire Market Outlook is one of CBRE/New England's signature publications that showcase our industry-leading data, analysis and foresight.

We are proud of this publication and hope you find it useful as you make your key real estate decisions in the coming year.

We would like to thank all of our clients for our success in 2016 and we look forward to partnering with you in 2017!

Sincerely,



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NEW HAMPSHIRE

2016 SNAPSHOT

VACANCY:



2015: 11.9%

2016: 10.4%

RENTS (NNN):



2015: \$12.52

2016: \$11.31





INTERSTATE 93/ROUTE 3 CORRIDOR OFFICE MARKET

by Roger Dieker, (roger.dieker@cbre-ne.com)

The Interstate 93/Route 3 Office market continued to improve in 2016, as the overall vacancy rate decreased by 150 basis points from 11.9% to 10.4%, which was helped by the redevelopment of several large properties from office to multifamily and the steady expansion of existing office users. The disruption created by the use of mobile technology continues to reshape the 'typical' office configuration. As existing office spaces are reconstructed by relocating tenants, the employee per sq. ft. utilization continues to shrink.

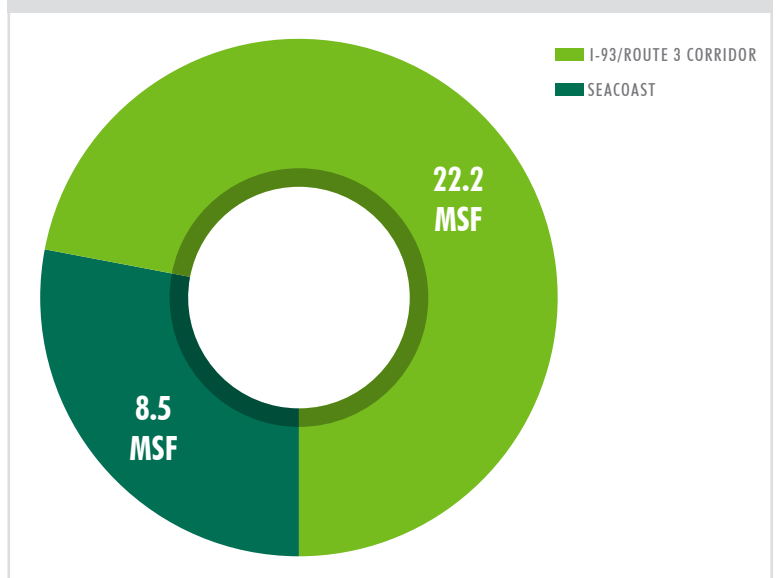
MARKET HIGHLIGHTS:

- Overall vacancy statistics were helped by the conversion of **130,000 sq. ft. of office at 875 Elm Street in Manchester** (Citizens Bank building) to 91 high-end apartment units and first floor retail.
- BAE Systems continued to expand their footprint in Nashua by taking **35,000 sq. ft. at 10 Tara Boulevard** at Exit 1 on the F.E. Everett Turnpike.
- A major financial services firm announced in September that it would relocate 600 jobs from its three-building, 126,000 sq. ft. campus on Northeastern Boulevard in Salem to other facilities in Texas, Florida, Arizona and Delaware. The transition is scheduled to be completed in 2018.
- The continued uncertainty in the health insurance business resulted in **United Healthcare** downsizing from 120,000 sq. ft. to 60,000 sq. ft. at **14 Central Park Drive in Hooksett**.

Vacancy dropped
150 basis points
year-over-year as
the market continued
to strengthen.

NEW HAMPSHIRE

TOTAL OFFICE SQUARE FOOTAGE BY SUBMARKET



Source: CBRE Research

2017 FORECAST

The Southern New Hampshire Office market will remain steady in 2017, as office employment continues to stabilize and the remaining vacant spaces left by consolidating tenants are slowly absorbed in a strengthening economy. Lease rates should experience upward pressure across the board as this vacancy decreases. Lease terms should lengthen as companies gain confidence to lock up attractive rates within an improving economy and spread the amortization of newer efficient office construction over a longer term. Challenged office properties will need to find creative solutions, which may include savvy developers converting them into multifamily properties in order to acclimate themselves in a red-hot residential market.



NEW HAMPSHIRE SEACOAST OFFICE MARKET

by Kent White, (kwhite@cbre-portsmouth.com)

2016 has seen another year of positive absorption, with vacancy rates declining to 8.3%. This is the seventh consecutive year of decreasing vacancy rates from the historically high level of 20.3% in 2009. Unlike previous years when new construction added much-needed available space to the market, the Seacoast did not see any new construction in 2016. This contributed to driving down the vacancy rate even further and putting more pressure on the market.

Although there are submarkets within the Seacoast that continue to be stagnant, **the overall market is extremely healthy**. To illustrate this point, one can look at the Pease Tradeport, which is considered to be the economic engine of the Seacoast. The vacancy rate decreased from 6.9% at the end of 2015 to 3.4% in 4Q 2016. Although there are rumors of various new construction projects, only one 30,000 sq. ft. project at 85 New Hampshire Avenue will be an available option in 2017.

TRENDS & MARKET CONDITIONS

Are vacancy rates too low? Is the New Hampshire Seacoast Office market too healthy? The answer depends on who you ask. Landlords are happy because most buildings are experiencing low vacancy rates and increasing rents. Tenants, however, are frustrated with the lack of quality options and aggressive lease rates and terms.

This lack of supply has placed pressure on office tenants looking for space in the market, particularly large users who require 15,000 sq. ft. or greater. Wheelabrator Industries and Planet Fitness are two examples of this scenario. Both Wheelabrator and Planet Fitness effectively had only one option among existing availability that would accommodate their space needs, and that one option was dependent on the other's move. Wheelabrator decided to relocate their corporate offices from 4 Liberty Lane in Hampton to 100 Arboretum Drive at the Pease Tradeport. Planet Fitness recently leased the building that Wheelabrator vacated, as this was the only existing option in the entire Seacoast to accommodate their expansion.

2016 SNAPSHOT

VACANCY:



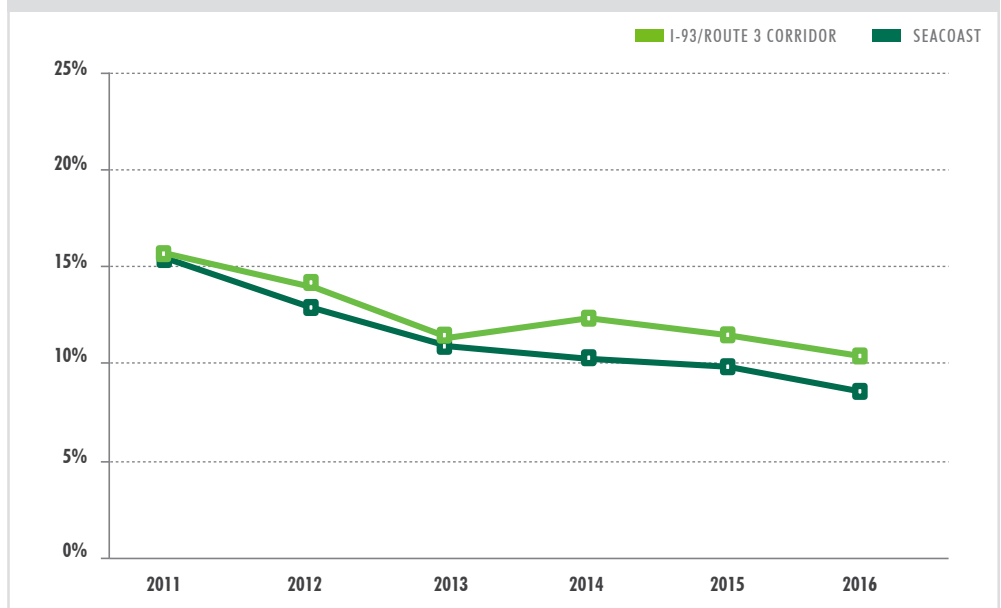
2015: 9.8%
2016: 8.3%

RENTS (NNN):



2015: \$11.42
2016: \$11.92

NEW HAMPSHIRE
HISTORIC OFFICE VACANCY RATE



Source: CBRE Research

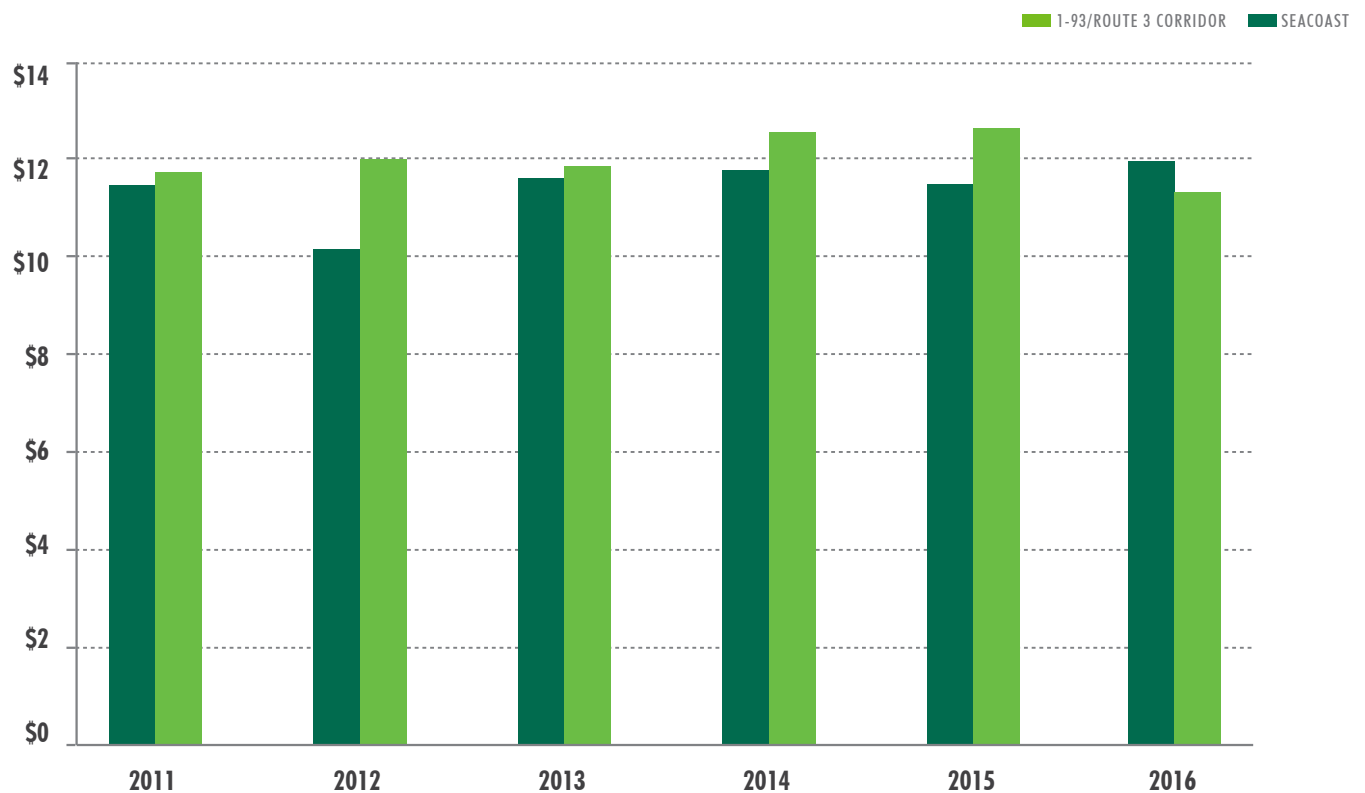
PORTSMOUTH/PEASE VS. THE REST OF THE MARKET

The New Hampshire Seacoast Office market consists of two independent submarkets—Portsmouth/Pease and the rest of the Seacoast. Following are a few facts that emphasize the Portsmouth/Pease market's impact on the overall Seacoast market:

- Portsmouth/Pease comprises 48% of the total Seacoast Office market
- Average asking lease rates in Portsmouth/Pease are \$5.00 per sq. ft. higher than surrounding communities
- NNN expenses are higher, especially property taxes, in Portsmouth/Pease
- Higher rents should spur new construction in Portsmouth/Pease



NEW HAMPSHIRE
HISTORIC OFFICE AVERAGE ASKING RENT (NNN)



Source: CBRE Research

PEASE TRADEPORT... ALMOST FULL?

The New Hampshire Seacoast Office market explosion over the past 20 years can be directly attributed to the growth of the Pease Tradeport. Since the former military base closed in 1991, over **4,000,000 sq. ft. of commercial real estate has been developed, creating more than 9,500 high-paying jobs**. There is the impression that there is an unlimited amount of developable land at Pease to accommodate future demand, however, this is not the case. There are currently nine lots available for commercial/industrial development at Pease. Of those nine, seven are formally under option to developers or abutting businesses looking to protect their future growth needs. Although Pease still has room for growth, this could change in the not-too-distant future as demand continues to increase.

2016 was the seventh consecutive year of decreasing vacancy rates in the Seacoast market.



2017 FORECAST

The Seacoast Office market should remain stable in 2017. Portsmouth/Pease will continue to be the engine of the Seacoast, however, with limited vacancy in existing inventory and minimal new construction planned for 2017, companies that want to be in Portsmouth may be forced to consider surrounding areas. This was the case when Planet Fitness expanded and relocated their corporate headquarters from Portsmouth to Hampton.

Landlords and tenants should consider the following as they plan for 2017 and beyond:

TENANTS

- Tenants will continue to see limited options, increasing lease rates and fewer landlord concessions.
- It is important for tenants to understand their budget. Many tenants may want to lease space in Portsmouth/Pease, but the cost savings can be substantial if they consider surrounding communities.
- Tenants should start looking early. With so few options, a tenant may be forced into making a poor decision if they wait too long.
- Hire a commercial broker to represent the company. Having an experienced broker on call will help prospective tenants navigate the competitive market.

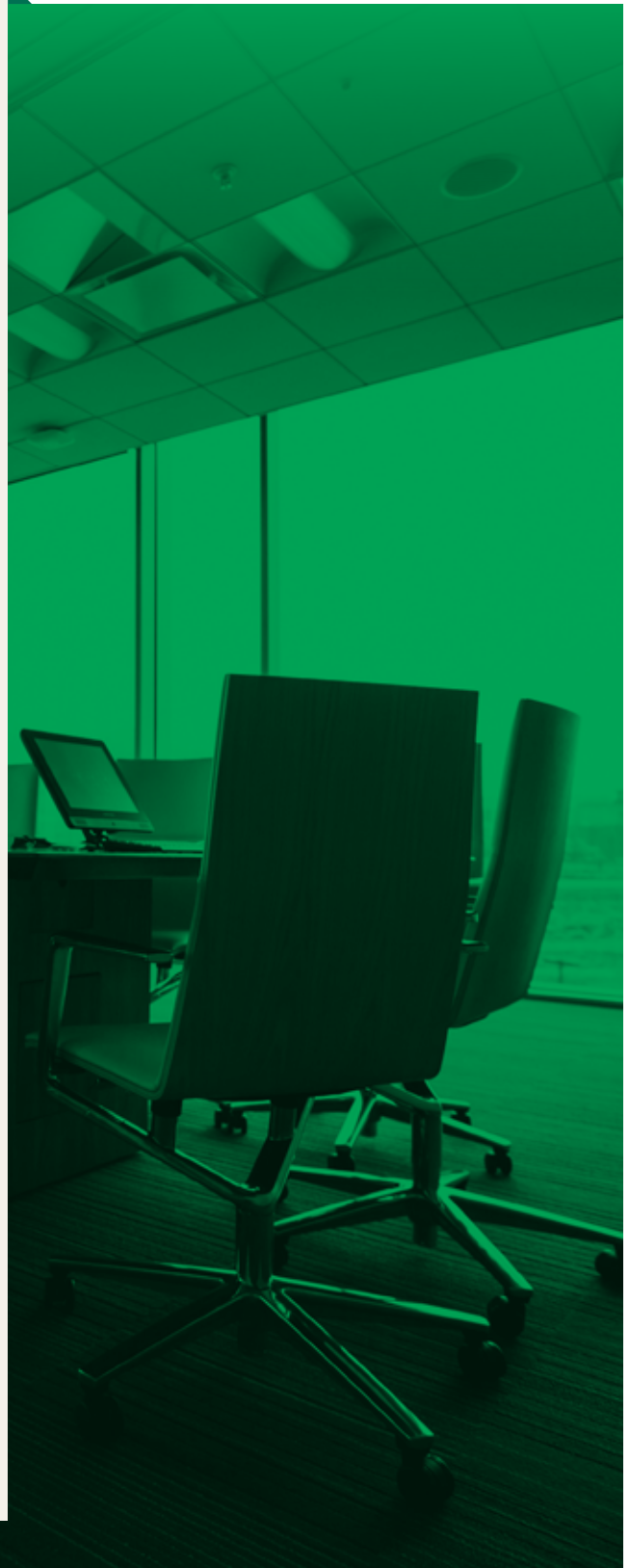
LANDLORDS

- With vacancy rates down and demand high, rents will continue to increase. This is an excellent time for owners to add value to their portfolio.
- It is a landlord's market. The days of landlords offering free rent periods, generous tenant improvement (TI) allowances and other concessions are over.
- Consider selling. The appetite for investment properties is at an all-time high in the Seacoast. If a building is more than 70% occupied, it is a great time to consider putting it on the market.
- Refinance. Commercial interest rates are still at all-time lows, but it is predicted rates will increase in 2017, so now is the time for landlords to refinance their properties.

NEW HAMPSHIRE

NEW HAMPSHIRE OFFICE MARKET SNAPSHOT

Submarket	Total Sq. Ft.	Vacant (Sq. Ft.)	Vacancy (%)	Avg. Asking Rent (NNN)
Amherst	267,263	2,400	0.9	9.75
Auburn	60,600	8,256	13.6	8.60
Bedford	1,898,427	205,362	10.8	13.50
Bow	79,155	25,000	31.6	9.00
Concord	2,442,191	295,771	12.1	13.50
Derry	228,162	54,146	23.7	12.00
Hooksett	321,472	20,868	6.5	9.00
Hudson	41,091	-	0.0	8.50
Londonderry	631,217	25,271	4.0	12.50
Manchester	7,778,168	879,237	11.3	12.75
Merrimack	2,144,014	113,514	5.3	12.25
Nashua	3,937,913	434,101	11.0	12.50
Salem	2,122,148	206,008	9.7	12.50
Windham	232,579	34,493	14.8	12.00
Total I-93/Route 3	22,184,400	2,304,427	10.4	11.31
Dover	1,674,535	137,043	8.2	10.00
Durham	184,688	0	0.0	8.50
Exeter	506,692	32,988	6.5	12.50
Greenland	70,947	3,200	4.5	11.50
Hampton	444,926	35,457	8.0	12.00
Newington	128,196	33,176	25.9	16.00
Newmarket	40,064	800	2.0	8.00
North Hampton	93,459	17,795	19.0	10.50
Pease	1,990,012	93,916	4.7%	16.50
Portsmouth	2,142,625	93,107	4.3	18.00
Rochester	582,419	166,545	28.6	7.50
Seabrook	76,149	0	0.0	9.00
Somersworth	213,370	14,400	6.7	8.50
Stratham	393,818	80,000	20.3	11.00
Total Seacoast	8,541,900	708,427	8.3	11.92
Overall NH Office	30,726,300	3,012,854	9.8	11.62





875 Elm Street • Manchester, NH



100 Market Street • Portsmouth, NH



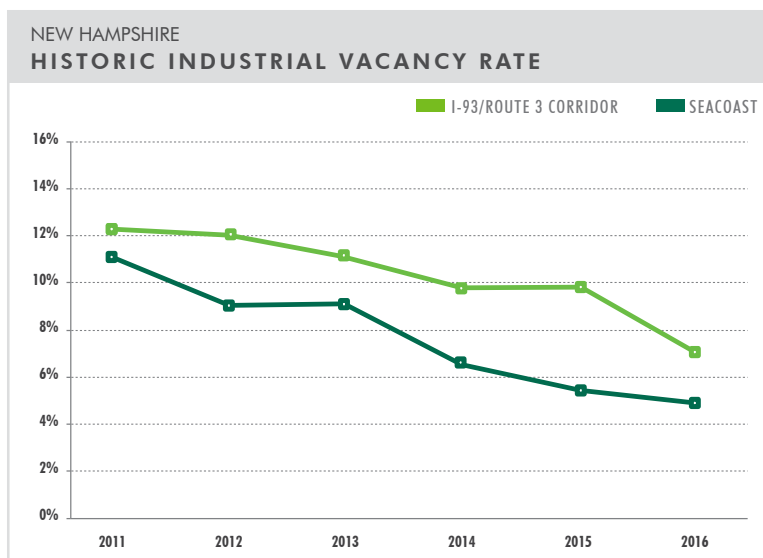
INTERSTATE 93/ROUTE 3 CORRIDOR INDUSTRIAL MARKET

by Chris Healey, (chris.healey@cbre-ne.com)

Clients looking for industrial space in 2016 experienced firsthand the surplus in demand and shortage of on-market opportunities for purchase or lease. For investors, users and tenants alike, securing industrial real estate in southern New Hampshire proved to have its fair share of challenges. A similar story to what was seen in 2015, absorption of existing property progressed and rates further stabilized in response to increased demand and extremely limited supply. The vacancy rate in 2016 was 7.0% which, compared to a rate of 9.9% in both 2014 and 2015, was a decline of 290 basis points. Despite the lack of available inventory in local markets, there was still some notable activity, including the following highlights:

- **200 Perimeter Road**, a 67,500 sq. ft. warehouse located at Manchester-Boston Regional Airport, was acquired by Amber Properties for \$2.6 million.
- The 157,000 sq. ft. General Electric building at **31 Industrial Park Drive** in Hooksett was acquired for \$25.8 million.
- Law Logistics signed a long-term lease and will occupy 132,200 sq. ft. at **59 Daniel Webster Highway** in Merrimack.
- A heavy equipment company sold **780 Route 103 West**, a 50,000 sq. ft. asset located on 90 acres in Warner, NH, to a user for \$2.5 million.

With heightened demand and limited supply, vacancy rates declined significantly from 2015.



Source: CBRE Research



2017 FORECAST

Looking ahead, industrial rates should see continued stabilization—and room for potential increases—with further absorption of existing inventory. Speculators suggest with the election over, there may be improvement with regard to the industrial and manufacturing sectors of our economy, resulting in a demand for more space of that variety.

The Manchester-Boston Regional Airport area has continued to see increased development with notable in-state movement from companies like FW. Webb (relocating from Amherst to Manchester into 1,000,000 sq. ft.) and EFI-Vutek (relocating from Meredith to Manchester into 240,000 sq. ft.) seeking to improve not only their facilities, but their location and access to a larger workforce. This

momentum and commitment to the area will continue to attract more in-state and out-of-state companies as they look for solid, long-term relocation opportunities and modern, state-of-the-art facilities.

Creating new inventory on speculation has not been as economically feasible for developers over the past several years, as the cost of construction has been prohibitive when compared to market rental rates and their return on investment. Inventory will remain tight in the Interstate 93 South corridor through Salem, as well as along Route 3 through Nashua, with less time on market across the region for both existing inventory and newly available industrial space.

VACANCY:

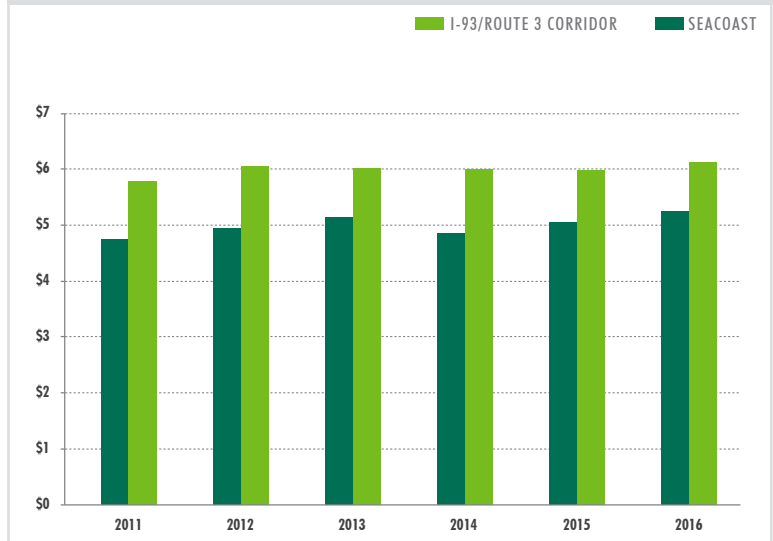
2015: **9.9%**
2016: **7.0%**

RENTS (NNN):

2015: **\$5.98**
2016: **\$6.09**

NEW HAMPSHIRE

INDUSTRIAL AVERAGE ASKING RENT (NNN)



Source: CBRE Research



NEW HAMPSHIRE SEACOAST INDUSTRIAL MARKET

by Christian Stallkamp, (cstallkamp@cbre-portsmouth.com)

For industrial users of all sizes, 2016's lack of quality industrial product continued to edge industrial rents and sale prices higher in the Seacoast market. A good economic bellwether for the Seacoast can be seen at an industrial/flex complex in Greenland that is comprised of 44 units, with sizes ranging from 1,200–2,400 sq. ft. Currently, and over the course of the year, there have been limited to no spaces available. Five years ago, a small industrial user could easily have had close to five or six options. This limited supply

shows the economy's strength in the Seacoast and the growth and confidence of small businesses.

Other key factors affecting the market are the repositioning of some of the larger industrial buildings and the lack of available developable land. In response to these market conditions, the Seacoast has seen growing industrial users looking at new construction or expanding their existing footprints.

TRENDS & MARKET CONDITIONS

NEW CONSTRUCTION/EXPANSION

Over the past year, businesses looking to expand in the Seacoast have had limited options, thus forcing them to consider new construction. In fact, most of the noteworthy moves within the Seacoast Industrial market in 2016 involved new construction:

- **GourmetGiftBaskets.com** will be moving into a new 107,000 sq. ft. warehouse/distribution facility in January. This build-to-suit at 12 Continental Drive in Exeter will allow the growing business to meet customer demand.
- **Insurcomm**, a fire damage and restoration services company, recently moved into a new 35,000 sq. ft. facility in Portsmouth, doubling its size to meet the business's strong growth and support its expansion into other markets.
- **C3i, Inc.**, which has been based in Hampton for over 20 years, is relocating to Exeter to a new state-of-the-art 11,000 sq. ft. facility to create a more efficient workplace.
- Other businesses looking to meet their growing customer demand have looked at on-site expansion, such as **LAARS** and **Eastern Propane**, both located in Rochester, New Hampshire.
- **Stonewall Kitchen** and **Rand Whitney** are examples of large tenants with ground-up deals signed in 2015 that have now occupied their space in 2016. Both companies are located in Dover, with Stonewall Kitchen's new space consisting of 75,000 sq. ft. and Rand Whitney now occupying 129,000 sq. ft.

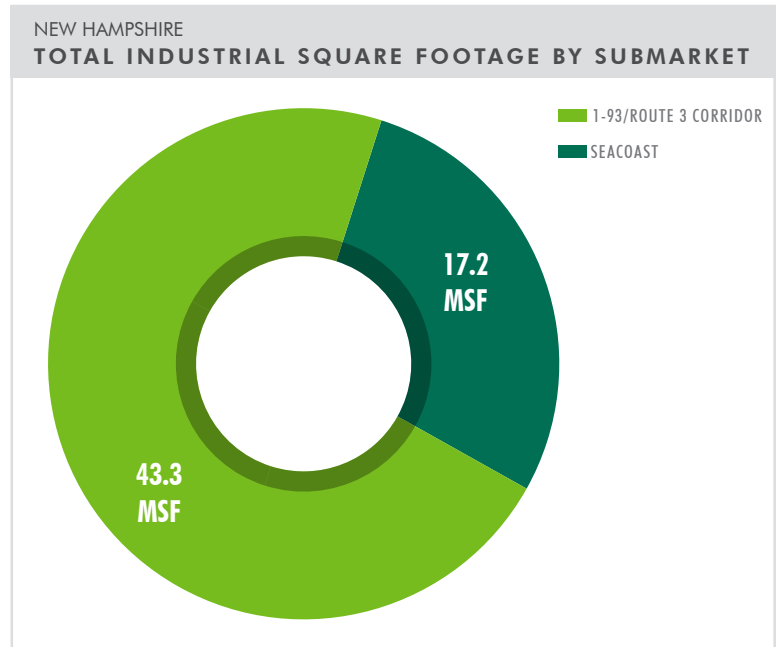




INDUSTRIAL REPOSITIONING

The Seacoast Industrial market is comprised of approximately 17.2 million sq. ft., which is very small when compared to a market such as Boston’s approximately 143 million sq. ft. That means when larger buildings are repositioned in this market, the change in metrics stands out. One trend in repositioning that dramatically affected traditional industrial inventory was the repurposing of industrial warehouses into self-storage facilities. Two industrial buildings—72 New Zealand Road in Seabrook (51,000 sq. ft.) and 125 Ocean Road in Greenland (48,000 sq. ft.)—have both been converted to self-storage facilities, contributing to the unbalanced supply vs. demand issue for industrial users.

High demand and a shrinking amount of available land for new construction has resulted in historically high sale prices.



Source: CBRE Research

2016 SNAPSHOT

VACANCY:



2015: 5.6%
2016: 4.9%

RENTS (NNN):



2015: \$5.04
2016: \$5.26

LACK OF LAND/HIGHER SALE PRICES

Layered on top of the need for new construction is the lack of available industrial land in the Seacoast market. One example of how far the Seacoast market has filled in over the course of time can be seen at the Pease International Tradeport in Portsmouth/Newington. This former U.S. Air Force Base is home to over four million sq. ft., with only two available lots remaining for development (those without existing options). For pricing data points outside of Portsmouth, but still in the Seacoast, historic sale prices would typically be \$55–65 per sq. ft. In 2016, the price range hit \$74 per sq. ft. up to \$94 per sq. ft. for an older 46,000 sq. ft. industrial building with Interstate 95 visibility.

2017 FORECAST

In 2017, we expect industrial vacancy to continue to be tight, with continued pricing increases occurring as a reflection of the lack of product. This trend should continue as long as product remains in short supply in a low interest rate environment. Submarkets outside Portsmouth—such as Exeter, Dover, Rochester and Epping—will continue to see more ground-up deals due to more available land options with lower acquisition costs.

NEW HAMPSHIRE

NEW HAMPSHIRE INDUSTRIAL MARKET SNAPSHOT

Submarket	Total Sq. Ft.	Vacant (Sq. Ft.)	Vacancy (%)	Avg. Asking Rent (NNN)
Amherst	1,183,846	5,547	0.5	5.80
Auburn	247,019	11,200	4.5	5.50
Bedford	962,037	161,836	16.8	6.25
Bow	455,383	14,800	3.3	6.60
Concord	2,750,613	340,606	12.4	6.25
Derry	1,233,117	65,972	5.4	6.00
Hooksett	1,506,687	23,114	1.5	6.00
Hudson	3,828,304	324,452	8.5	6.00
Londonderry	5,579,543	224,342	4.0	6.50
Manchester	8,889,967	408,869	4.6	6.25
Merrimack	3,836,086	184,360	4.8	5.20
Nashua	9,720,865	1,051,407	10.8	5.90
Salem	2,791,986	228,801	8.2	6.50
Windham	348,200	0	0.0	6.50
Total I-93/Route 3	43,333,653	3,045,306	7.0%	6.09
Dover	2,404,252	257,697	10.7	5.25
Durham	310,000	0	0.0	4.75
Exeter	1,060,087	46,482	4.4	5.50
Greenland	820,865	0	0.0	6.00
Hampton	906,170	19,962	2.2	5.50
Newington	1,249,135	96,624	7.7	5.50
Newmarket	140,204	0	0.0	5.25
North Hampton	173,452	0	0.0	5.25
Pease	1,548,849	0	0.0	6.50
Portsmouth	2,080,442	56,643	2.7	6.25
Rochester	2,151,611	124,050	5.8	4.75
Seabrook	1,597,010	69,400	4.3	6.00
Somersworth	1,865,697	137,900	7.4	4.50
Stratham	893,510	33,450	3.7	6.00
Total Seacoast	17,201,284	842,208	4.9	5.26
Overall NH Industrial	60,534,937	3,887,514	6.4	5.68





218 Griffin Road • Portsmouth, NH



780 Route 103 West • Warner, NH

CBRE/NEW ENGLAND PLATFORM

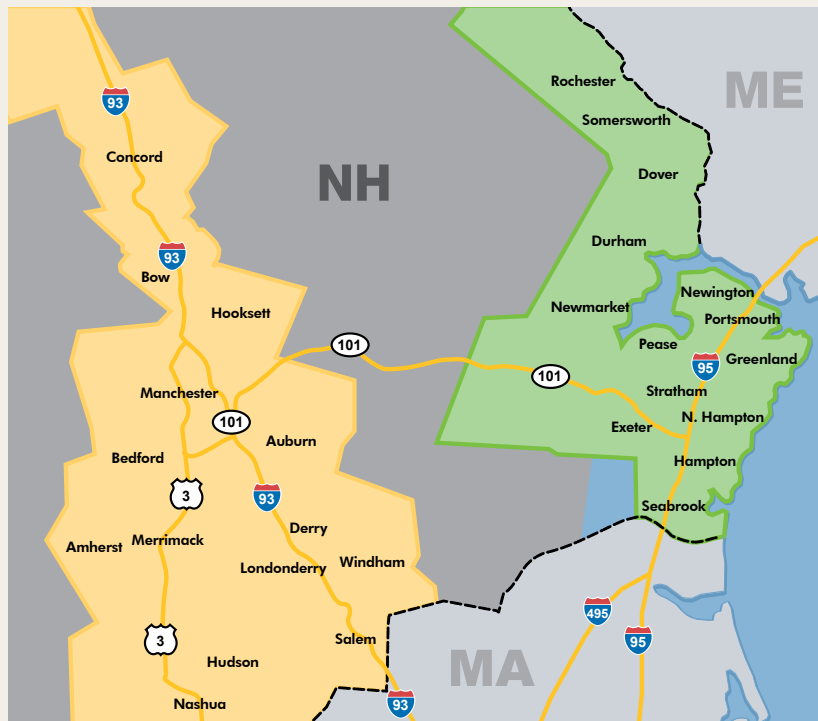
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Today, CBRE/NE sets a new performance benchmark for the commercial real estate industry by offering a complete spectrum of real estate services to our clients. Service lines include Capital Markets, Asset Services, Advisory & Transaction Services, Debt & Structured Finance, Facilities Management and Development. This full complement of services allows our firm to work with our clients through the full life cycle of their real estate needs, adding value at each new phase.

CBRE/NE staffs over 400 employees servicing all of the needs of our ever-changing client base. Our framework combines various perspectives and specialties to field the group of professionals best able to answer the changing needs of every client. The very size and regional intensity of our firm, the largest commercial real estate services company both in the nation and New England, provides clients with the resources necessary to achieve their real estate goals.

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 sq. ft. and are considered investment-grade quality. 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 sq. ft. within each submarket. This survey was completed on December 1, 2016. The represented vacant (sq. ft.) includes both vacant and available space.



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With approximately 70,000 employees in 62 countries worldwide, CBRE has access to significant insight, experience, intelligence and resources to help each of our clients to make informed real estate decisions. Whether it is a local, national or global assignment, CBRE's strengths are applied to every transaction and client relationship to deliver the highest level of service and superior results.

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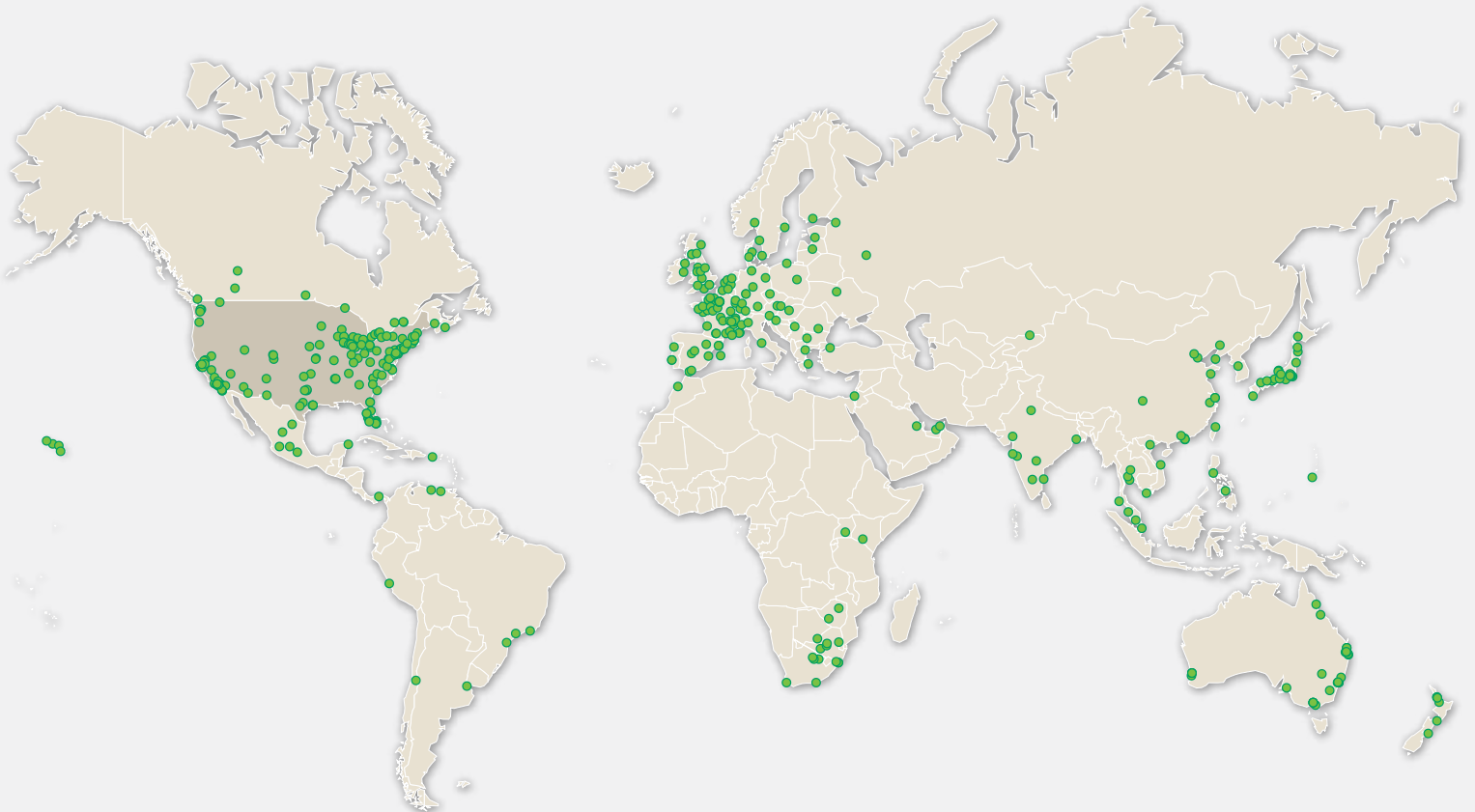
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