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## **Commercial Vacancy Rates up; Developers Continue to put up Buildings**

By Gordon Fraser

SALEM — At 11, Keewaydin Drive stands the shell of a large office building that has remained unfinished for more than a year.

In some ways, it's the symbol of a trend worrying many town planners, economic forecasters and real estate experts. Commercial vacancy rates are rising, and "for lease" signs litter the town's commercial districts, but developers are still putting up office buildings at breakneck speed.

Brooks Properties, which owns the unfinished building at 11 Keewaydin, isn't going to complete the structure until it has a tenant. And, even though no tenant has appeared, Brooks is planning to build three more structures in the same neighborhood.

Three miles away, SFC Engineering is designing a medical office building on Sally Sweets Way. And in Londonderry, Tower Hill Developments plans to expand an office building at the corner of Route 28 and Enterprise Way.

"It's kind of interesting that now we've got proposals for ... more buildings when we've got vacant space," said Ross Moldoff, planning director in Salem.

Salem has an office-space vacancy rate of 22.2 percent, according to Mike Harrington, managing broker for the Manchester office of economic forecaster CB Richard Ellis New England. That's up from 16.6 percent vacancy in 2006, and 16.8 percent vacancy in 2005, according to CB Richard Ellis.

All of those rates are higher than an average, healthy rental market, Harrington said.

"Once we break 10 percent (it's an unbalanced market). So, if you're around 9 to 8 percent vacancy, we really consider that to be a market in which you'd expect to have building," Harrington said.

Other communities nearby are doing better. Derry has a vacancy rate of 8.5 percent and Londonderry has a rate of 10 percent, Harrington said.

One reason for the discrepancy is price, Harrington said. Rent for a Salem office averages \$13 a square foot, while in Derry it averages \$12.50 and in Londonderry \$11. It might not sound like a lot, but multiplied over thousands of square feet and perhaps half a decade, business owners see a significant price difference.

The other reason for the high vacancy rate in Salem, Harrington said, is the economy. While there are exceptions in the defense and high-tech industries, many businesses are nervous about expanding, he said.

### **Some developers optimistic**

But Brooks Properties developer Eric Brooks intends to continue building — especially in Salem.

"We're not slowing down," he said. "We're moving forward."

Brooks — whose father, Harold Brooks, owns the family company — isn't worried about an economic slowdown or rising vacancy rates. That's largely because Brooks Properties has the financial resources to start a building and wait for tenants to lease space in it.

And while building more office space when you haven't filled the space you have might sound crazy, it might just make good business sense. Some companies in the area are eyeing expansion without much regard for the wider economy.

"We're ... planning on getting bigger," said Sonja Fridell, marketing coordinator for Amber Wave Systems in Salem.

While the 10-year-old semiconductor research company isn't planning to move across town — they're in a facility on Garabedian Drive — it might need more space in the coming years.

"We have the space right now. We're in an old Wal-Mart distribution center," Fridell said.

But, she added, there could be a day soon when the company is forced to start leasing other nearby office space in Salem.

But Chris Goodnow, a commercial real estate consultant in Southern New Hampshire, said many developers aren't counting on companies like Amber Wave to run out of space.

During an economic slowdown, or even a perceived one, many businesses aren't in the mood to expand, especially not into a new building, he said.

"For a new facility, a tenant has to be ready to pay more," he said, "but, in a challenging economy, paying more is not a very popular thing."

While Goodnow agreed that developers with a lot of capital can ride out a slowdown, or even a recession, he said anxiety among commercial property owners is high.

"I think, going forward, if a builder is intending to construct a facility on a speculative basis, there's a great deal of thought that has to go into that — and concern, frankly," Goodnow said.

### **Expert: Trend will reverse itself**

The New Hampshire office vacancy rate along the Interstate 93 corridor went from 13.4 percent at the beginning of 2007 to 14.4 percent at the end of the year, according to Harrington, of CB Richard Ellis.

The trend will eventually reverse itself, Harrington said, but the big question is: How long will that take?

"There's no way to tell how long (a market correction) would take," Harrington said.

And that has many local developers worried, according to engineer Dave Jordan of SFC Engineering Partnership in Salem.

Jordan has been working on plans for a new medical office building on Sally Sweets Way as well as other projects. Lately, he said, many developers are expressing concern — although they're not necessarily backing away from projects.

"You'll find that most of them say yes, it is a concern," Jordan said. "Unless the person who is building it intends on occupying the building entirely themselves, then (vacancy rates are) always a concern."

But Andre Garron, director of planning and economic development in Londonderry, said there isn't much towns can do. While planning and zoning boards have oversight authority, they can't exactly reject a project because it doesn't make business sense to them.

"Whether or not they'd have grounds ... to deny something based on the economy? That's always a tough thing to prove (because) even the best economists can't put their finger on whether we're in a recession or not," he said.

Despite that, Garron isn't worried. At 11 percent, vacancy rates in Londonderry aren't much higher than normal right now.

"It doesn't seem like really a crisis situation or anything of that sort," he said. "Even in the best of times, there's some vacancy."

### **Commercial vacancy rates**

Salem: 22.2 percent

Hooksett: 11.5 percent

Manchester: 11.3 percent

Londonderry: 10.1 percent

Derry: 8.5 percent

Windham: 5.2 percent