

## MEMORANDUM



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**TO:** Jeff Grossman, Jim Fisk  
Town of South Berwick

**FROM:** Craig Seymour and Darren Mochrie

**DATE:** October 5, 2006

**SUBJECT:** Preliminary Market Summary

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The following information provides an overview of the supply and demand for light industrial, flex and warehouse buildings and office space; as well as commercial/retail; and light industrial land in the greater Seacoast market. This memorandum is intended to serve as a summary of market trends and, based on available quantitative and qualitative market indicators, projects future market conditions relative to the proposed business park off of Route 236 in South Berwick.

The subject property is zoned for industrial uses (I1). The purpose of the zone includes:

- To promote the location of light industry or high-value business where services and transportation facilities presently exist or can reasonably be provided, in areas which are best suited for such development;
- To prevent inappropriate juxtaposition of industrial uses and residential uses; and,
- To provide effective sighting and controls on those uses which, by virtue of their size or external effect (noise, waste discharge, glare, fumes, dust, smoke, traffic generation and parking areas, etc.) could otherwise create nuisances or unsafe or unhealthy conditions.

Permitted uses within the I1 zone include the following:

- Agricultural (livestock and non-livestock) uses;
- Banks;
- Essential services;
- Family day care centers;
- Camps;
- Home occupations;
- Residential uses (single family, manufactured homes, two-family homes); and,
- Parks.

Other uses within the I1 zone are also allowed under site plan review or by permit from the Town's Code Enforcement Officer.



## **A. Real Estate Supply**

The following provides an analysis of the supply for commercial/industrial, office and retail space, as well as available non-residential land in the greater Seacoast region.

### **1. Light Industrial, Flex and Warehouse Buildings**

According to CB Richard Ellis, it is estimated that at the end of 2005, the greater Seacoast region contained approximately 16.6 million square feet (SF) of available light industrial, flex and warehouse space, of which about 2.3 million SF was available for lease or sale. This amount of available space equated to an overall vacancy rate of 13.8% in 2005 – down from 14.3% from 2004. Within the local South Berwick market area<sup>1</sup>, there is a limited amount of better quality light industrial, flex and warehouse space for sale or lease, estimated at approximately 257,000 SF.

Because of the development of more modern space that was absorbed by existing businesses, some of the space formerly occupied by these users sits vacant and is generally considered functionally obsolete. Current lease rates for older industrial, warehouse and flex space ranges between \$3 and \$4.50 per SF with more modern space leasing for \$5 to \$7 per SF. These lease rates have remained virtually level over the past year, and are projected to increase only modestly in 2006.

### **2. Office Buildings**

Based on a search of available office listings, the region contains approximately 6.3 million SF of available office space, of which 1.1 million SF is currently available, equating to a regional vacancy rate of 16.8%. Due to the downsizing of a few large office tenants (Tyco, Enterasys, and MBNA), the Seacoast's office vacancy rate has increased by over four percentage points since 2004. Within the local market area, there is an estimated 207,000 SF of office space representing about 18% of the supply in the Seacoast with most of this supply in Dover. There is very little true office space in the Maine portion of the local market, with most of it consisting of small individual (owner-occupant) office buildings or condos, mostly in Kittery and York.

Current lease rates for Seacoast office space averaged about \$11/SF, which represents only a nominal increase since 2002. Downtown Portsmouth and Pease Tradeport are the strongest office locations in the region with average asking lease rates of \$15/SF to \$20/SF. Projections indicate that with limited new office construction planned for 2006, and Class "A" space in short supply, lease rates for Class "A" space may increase modestly, while the significant supply of Class "B" and "C" space will keep rates stable for these products. Similar to industrial space, with interest rates still considered relatively low, there has been significant demand from existing users who are currently leasing space, to purchase office space (usually in the form of stand alone buildings or condominiums).

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<sup>1</sup> Berwick, Dover, Eliot, Kittery, Somersworth, South Berwick, York.

### **3. Commercial and Retail Buildings**

There is approximately 3.9 million SF of available commercial and retail space within the Seacoast, most of which is small 1,500 SF to 4,000 SF traditional ground floor storefront space. Similar to the office market, Dover space is generally leasing near the regional average (\$10/SF to \$14/SF) while in Kittery and Portsmouth commercial and retail space commands a premium at up to \$40/SF (premium space in the outlet malls or downtown Portsmouth). Lease rates for commercial and retail space is higher in suburban, highly visible, automobile-oriented locations (strip or “power center” retail) throughout the Seacoast than in the older downtown locations (which may lack visibility, traffic counts and parking in very close proximity to stores). The exception to this general rule is in Kittery and Portsmouth, where lease rates for commercial and retail storefronts are at or above suburban space.

There has been a recent wave of retail development throughout many Seacoast communities with many big box and traditional retailers developing high visibility, automobile-oriented locations in Dover, Somersworth and Rochester (as well as at Exit 32 of the Maine Turnpike in Biddeford). With the exception of Somersworth and (to a lesser extent) Dover, much of the available 234,000 SF commercial and retail space supply in the local market area is contained within small traditional storefronts, and small corridor retail locations (particularly common along Route 236 in South Berwick, Eliot and Kittery).

### **4. Industrial Land**

Based on an analysis of listings for available industrial land within the Seacoast region, there is approximately 1,400 acres of vacant industrial land available for immediate development, much of which is serviced with water and sewer infrastructure (either at the site or nearby). These land parcels are contained within both established industrial parks as well as isolated sites. The South Berwick local market area is estimated to contain approximately 64 acres of available land representing about 5% of the Seacoast supply. Commercial/industrial land prices vary widely due to available infrastructure, location, topography, transportation access, etc. However, commercial/industrial land is currently selling for between \$30,000 and \$200,000 per acre with the average price being approximately \$40,000 to \$50,000 per acre.

## **B. Real Estate Demand**

While the overall Maine economy has remained sluggish, quantitative indicators suggest that the York County economy has performed well over the past five years with positive growth in jobs, businesses, population and wages. Feeding off of this regional economic expansion, South Berwick, although coming from an exceptionally smaller base, has also experienced positive economic growth over the same time period. A summary of these economic and demographic indicators is contained within a September 13, 2006 RKG Associates memorandum entitled *Preliminary Demographic and Market Conditions*.

Looking forward to the start of the next decade, quantitative indicators such as employment projections, suggest continued and accelerated expansion of the regional economy. Conservatively assuming York County continues its historic 9.5% of the Maine employment base, employment projections between 2002 and 2012 provided by the Maine Department of Labor project that the job base in the county could increase by over 5,500 jobs (11%). As shown in Table 1, the majority of these jobs are expected to be in the health care, retail, and accommodation and food service sectors. The region is expected to lose manufacturing and utility jobs, and remain flat in construction jobs. Although not included in this analysis, these broad general economic trends are echoed within employment projections generated by the University of Southern Maine's Muskie School of Public Service.

Although York County's manufacturing base (employment and establishments) has declined, and is projected to decline further, York County has a cluster of manufacturers of specialized products which contribute to its economy. According to a 2005 University of Southern Maine Center for Business and Economic Research study<sup>2</sup>, manufacturing specializations in York County include:

- Bakeries and tortillas manufacturing;
- Converted paper product manufacturing;
- Printing and related support activities;
- Cement and concrete product manufacturing;
- Architectural and structural metals manufacturing;
- Industrial machinery manufacturing;
- Magnetic media manufacturing and reproducing;
- Ship and boat building; and,
- Household and institutional furniture manufacturing.

Based on estimated building area square footage per employee estimates provided by the Urban Land Institute, the expanding job base in York County could require up to 4.3 million SF of building space. Assuming that some of this demand would be absorbed by existing buildings, there will be demand for new space based on this anticipated employment growth – with most of this growth resulting in demand for retail and office space. Furthermore, there may be anticipated demand within the county for up to one million SF of warehouse and distribution space, wholesale trade, and construction space. Conversely, with declining manufacturing employment, there may be negative demand for over 500,000 SF of manufacturing/light industrial space, resulting in some of this space coming onto the market.

Although South Berwick has a modest economic base, the community has advantageous economic assets such as a central location relatively close to the coast, good road transportation access, skilled workforce, quality schools, and high quality of life; quantitative indicators show uncertain demand for many of the types of uses that suit the subject property. For example, based on the assumption that South Berwick could

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<sup>2</sup> Colgan, Charles S. *Looking Beyond the Shipyard: Economic Development Challenges of Southern Maine and Seacoast New Hampshire*. University of Southern Maine Center for Business and Economic Research (2005)



capture between 2% and 10% of future regional building space demand, the community could potentially absorb between 21,000 SF and 104,000 SF of warehouse-distribution/wholesale trade space, and between 13,000 SF and 67,000 of office space through 2012.

**Table 1. York County Employment and Building Area Demand Projections: 2002-2012**

	2002	2012	# Change	SF/Employee	County SF Demand	Potential S. Berwick SF Capture		
						2% Capture	5% Capture	10% Capture
Mining	12	11	-1	624	-356	-7	-18	-36
Utilities	211	190	-21	624	-13,160	-263	-658	-1,316
Construction	2,794	2,803	9	1,643	14,984	300	749	1,498
Manufacturing	6,459	5,589	-870	624	-543,005	-10,860	-27,150	-54,300
Wholesale Trade	1,908	2,167	259	2,746	711,914	14,238	35,596	71,191
Retail Trade	8,185	9,153	968	197	190,762	3,815	9,538	19,076
Transportation and Warehousing	1,406	1,526	120	2,746	329,740	6,595	16,487	32,974
Information	1,097	1,156	59	347	20,570	411	1,029	2,057
Finance and Insurance	2,709	2,869	160	347	55,579	1,112	2,779	5,558
Real Estate and Rental and Leasing	636	745	110	347	38,108	762	1,905	3,811
Professional, Scientific, and Technical Services	2,153	2,417	264	485	128,181	2,564	6,409	12,818
Management of Companies and Enterprises	594	589	-5	347	-1,615	-32	-81	-162
Administrative and Support	2,137	2,514	377	347	130,673	2,613	6,534	13,067
Educational Services	5,465	5,893	427	699	298,756	5,975	14,938	29,876
Health Care and Social Assistance	8,504	10,956	2,452	699	1,714,179	34,284	85,709	171,418
Arts, Entertainment, and Recreation	749	1,005	256	1,643	420,649	8,413	21,032	42,065
Accommodation and Food Services	4,696	5,359	664	388	257,504	5,150	12,875	25,750
Other Services (Except Government)	2,063	2,376	313	1,643	513,832	10,277	25,692	51,383
<b>Total</b>	<b>52,306</b>	<b>57,885</b>	<b>5,579</b>		<b>4,267,294</b>	<b>85,346</b>	<b>213,365</b>	<b>426,729</b>

Source: Maine Department of Labor, Gruen, Gruen and Associates *Employment and Parking in Suburban Business Parks: A Pilot Study*. Urban Land Institute, 1986. and RKG Associates, Inc.

While quantitative indicators project modest and somewhat uncertain demand for the types of space within the region which may be suitable for the subject property, qualitative indicators suggest a more positive demand outlook. Interviews with local real estate and economic development professionals indicate that with recent low interest rates, some industrial users are moving out of their older existing (possibly leased) space and building new (owner-occupied) space that better meets their current and future needs. These needs may include higher ceilings, loading docks, office space, etc. resulting in lower operating costs. These industrial uses may include users such as the small, specialized manufacturers that are common in York County.

As such, these professionals are indicating that demand within the Seacoast light industrial market is currently driven by small end-users looking to purchase industrial condominiums ranging from 1,500 SF to 5,000 SF, as these users begin to take advantage of ownership versus leasing. These small end-users may be construction and related trades firms, niche manufacturers, retailers (particularly Internet-based

sellers) and distributors. Many small businesses, particularly start-up firms, also need to lease suitable space, resulting in a limited amount of speculative building activity for easily dividable, flexible space for these types of users.

It has also been speculated that as the New Hampshire market continues to grow, land and building prices will rise, resulting in a potential increase in demand for flex space on the Maine side of the border, despite the cost-of-business differences between the two states. If true, this will also enhance demand for the types of uses suitable for the Route 236 site. Similarly, the continued residential growth in the greater Seacoast market (despite the current small slowdown in activity) continues to create demand for construction-related and trades services, as well as smaller scale wholesale trade and specialty manufacturing concerns, all of which are suitable for the subject site.

### **C. Summary**

South Berwick is located in the center of a growing two-state marketplace. The Town has experienced solid economic growth by successfully capturing a share of the Region's population and business growth. Quantitative indicators show that the regional market for non-residential development can best be described as stable, with demand for the most part being met by the existing supply of land and built space. However, quantitative and qualitative indicators show that there may be growing demand for industrial and commercial spaces that serve the expanding small business community that includes office users (health care, professional & business services, and education services), and warehouse/distribution and wholesale trade users. These types of users are population dependent, therefore the demand will continue as the region's demographics continue to grow. Assembling pre-permitted "shovel-ready" lots will increase the likelihood of capturing the potential building space demand that for the industries that are expanding within York County. Having "shovel-ready" sites available to meet potential future demand, has been seen as an economic advantage in York County<sup>3</sup>, however, there are very few of these sites in the local South Berwick market area.

Based on both the quantitative and qualitative data available, we believe that a well-designed business park on Route 236 could expect to absorb 10,000 to 25,000 square feet of various light industrial, flex and distribution space per year under current market conditions and at comparable pricing to other product and locations in the Seacoast. The higher level of activity would be likely require the development of industrial condominiums, allowing for owner-occupancy of small (under 10,000 square foot spaces) to be developed on a cost effective basis.

This analysis does not discuss the financial feasibility of developing the subject property for these uses. A follow-on analysis will be undertaken to investigate this issue.

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<sup>3</sup> Planning Decisions, Inc. *An Economic Development Strategy for York County: What are the Best Prospects for Future Growth*. Southern Maine Regional Planning Commission (2006).