



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

FROM: Carlos P. Baía, Deputy City Manager—Development

DATE: February 27, 2018

SUBJECT: Economic Development Performance Annual Report: 2017-2018

Recommendation

Accept the report.

Building Permit Activity

429 building permits were issued in 2017. This number was down from previous years and was also correlated to the reduced total permit value. Most telling in 2017 was the State of New Hampshire's release of new administrative rules—in conformance with its interpretation of RSA 155-A:4—that mandated that all buildings and structures owned by the State and the Community College System were, in essence, exempt from local building permit obligations and instead only subject to permitting and inspection by the State Fire Marshal's office. The City voiced its concern with the State's interpretation of RSA 155-A:4 as—of all of New Hampshire's cities—Concord would feel the impact of this change the most. The State Fire Marshal conceded that the City could continue to do fire alarm and sprinkler reviews since it would be critical for our Fire Department to know where the life safety controls are in a building in the event of an emergency response. However, the State insisted that building, plumbing, mechanical and electrical inspections are no longer within the City's jurisdiction for the State's properties. As the state capital and home to NHTI, Concord has a significant amount of State and Community College property. Historically, several tens of thousands of dollars (in some instances, hundreds of thousands) in annual building permit revenue were generated for Concord with State projects for these facilities. The State's new position will, undoubtedly, result in a significant loss in building permit revenue going forward.

Concord Building Permit Activity				
	#Permits	Total Permit Value	Taxable Property*	Exempt
CY 2007	590	\$90,503,902	\$67,129,014	\$23,374,888
CY 2008	522	\$64,678,628	\$46,040,496	\$18,638,132
CY 2009	465	\$35,250,076	\$29,962,428	\$5,287,648
CY 2010	472	\$78,287,009	\$39,138,550	\$39,148,459
CY 2011	438	\$81,679,142	\$27,965,156	\$53,713,986
CY 2012	528	\$32,299,956	\$25,872,406	\$6,427,550
CY 2013	448	\$63,811,855	\$32,185,247	\$31,626,608
CY 2014	439	\$40,050,530	\$34,301,982	\$5,748,548
CY 2015	495	\$60,551,435	\$40,638,563	\$19,912,872
CY 2016	487	\$101,410,963	\$43,239,611	\$58,171,352
CY 2017	429	\$56,998,859	\$25,320,192	\$31,678,667

*Value includes renovations that may not be considered, in their entirety, as new tax base growth.

Housing

In 2017, 26 new single family homes were built and 16 new manufactured homes installed. No new multifamily units were built although 1 accessory dwelling unit was created. These numbers are down from 2016 (38; 19; and 20 respectively). Although single family home construction is not expected to rebound to early 2000's levels in the foreseeable future, there are a number of multifamily (apartment/condo) projects that are planned for 2018; particularly in downtown Concord.

According to the New Hampshire Housing Finance Authority data, the median purchase price of all primary homes in Concord (inclusive of condos, foreclosure sales, short sales, etc.) from January through the third quarter of 2017 was \$215,000; a 15% increase from the same period in 2016.ⁱ This was, by far, the largest increase in median home purchase prices of any of the NH cities in Concord's comparison group (see chart below). Single family homes in Concord during this 2017 time period sold for a median of \$236,033.ⁱⁱ

Median Purchase Price--Homes				
	Concord	Manchester	Nashua	Portsmouth
2013	\$196,500	\$185,000	\$225,000	\$355,000
2014	\$187,333	\$182,533	\$215,000	\$340,000
2015	\$195,000	\$195,000	\$221,000	\$340,000
2016	\$187,000	\$201,000	\$230,000	\$370,000
2017	\$215,000	\$215,000	\$245,000	\$409,500

Residential rental rates continued to rise due, in part, to a very limited supply of quality rental apartments. Concord’s already low vacancy rate tightened from 1.2% in 2016 to .8% in 2017.ⁱⁱⁱ This vacancy rate seems to demonstrate that the Concord market should be able to absorb additional multifamily developments.

Median Residential Rental Rates-2BD								
	Concord		Manchester		Nashua		Portsmouth	
		<i>Vacancy*</i>		<i>Vacancy*</i>		<i>Vacancy*</i>		<i>Vacancy*</i>
2013	\$1,068	2.9%	\$989	7.3%	\$1,064	3.1%	\$1,203	0.5%
2014	\$1,095	2.2%	\$1,002	2.6%	\$1,059	3.7%	\$1,620	1.3%
2015	\$1,136	1.3%	\$1,069	1.9%	\$1,131	3.4%	\$1,419	2.4%
2016	\$1,145	1.2%	\$1,265	1.9%	\$1,415	0.4%	\$1,404	1.0%
2017	\$1,211	0.8%	\$1,280	2.2%	\$1,559	0.7%	\$1,522	1.1%

**Vacancy for all units.*

Commercial Real Estate Market

Downtown Retail

A sidewalk survey of available ground floor commercial space was conducted on January 31, 2018. The area analyzed was bounded by Centre Street to the north; State Street to the west; and Storrs Street to the east and south. The findings illustrate that the downtown’s occupancy continues to be strong post Main Street project.

Downtown Concord Ground Floor Commercial	
	Vacancy
2013	10.30%
2014	10.90%
2015	8.90%
2016	8.04%
2017	5.50%
2018	6.50%

Loudon Road/D’Amante Drive/Fort Eddy Road

The Loudon Road/D’Amante Drive/Fort Eddy Road area continues its strong market performance seemingly unphased by the plight of the Steeplegate Mall. In fact, in 2017, the

Planning Board approved a site plan for a new shopping center across from the Mall which will house an Aldi Supermarket as its anchor.

Heights Retail Vacancy*		
	2017	2018
Fort Eddy Road	2.2%	2.2%
Loudon Rd/D'Amante Drive	6.3%	5.1%

*Exclusive of the Steeplegate Mall

Steeplegate Mall

Over the last year, the Mall saw the Sears store shrink in size and the Bon Ton vacate the premises. The community's expectations that Mall, under new ownership, would be able to attract strong, national tenants have largely gone unfulfilled. It appears increasingly evident that this property, in its current configuration, is not likely to turn around as a viable retail property.

Studies have shown, however, that people of all ages want to live near shops, restaurants, parks, trails, public transit, etc. All of these offerings can be found within a mile or less of the Mall's +/-50 acre property. When one couples this finding with the fact that Concord's existing residential rental market is extremely tight, the Mall could be viewed as a great candidate for a mixed-use re-development that could offer apartment homes, shops, services, etc.

Office

It was largely "status quo" for Concord's office market in 2017. This was also the case for most of the comparison cities in this report with the notable exception of Portsmouth and the Pease Tradeport, which both continued to experience high demand and limited supply.

New Hampshire commercial real estate observers do not expect the current office market absorption to increase dramatically in 2018. According to CB Richard Ellis, the trends point toward "fewer hard-walled offices and smaller meeting spaces."^{iv}

Average Office Asking Rents & Vacancy Rates								
	Concord		Manchester		Nashua		Portsmouth	
2013	\$14.00	13.3%	\$12.00	11.8%	\$12.00	12.5%	\$16.00	7.3%
2014	\$14.00	14.4%	\$12.00	13.7%	\$12.50	13.8%	\$17.00	4.5%
2015	\$13.50	14.0%	\$12.50	12.0%	\$12.50	16.9%	\$17.50	4.5%
2016	\$13.50	12.1%	\$12.75	11.3%	\$12.50	11.0%	\$18.00	4.3%
2017	\$13.00	12.3%	\$12.75	12.2%	\$12.50	11.6%	\$18.50	2.8%

Industrial

Industrial space is increasingly becoming more desirable around the state. With escalating construction costs, however, this demand is largely being sought out in existing inventory (rather than speculative property development). Responding to this market demand, landlords around the state are now “biting the bullet” and investing in their properties to make them more compatible with today’s user needs. This includes converting their industrial spaces to mixed-uses.^v This trend will be critical to monitor in Concord which suffers from an abundance of older industrial buildings that are not as desirable for today’s users.

<i>Average Industrial Asking Rents & Vacancy Rates</i>										
	Concord		Manchester		Nashua		Portsmouth		Salem	
2013	\$6.25	14.4%	\$6.10	8.0%	\$6.00	14.1%	\$5.50	6.3%	\$6.25	19.5%
2014	\$6.15	23.2%	\$6.00	7.7%	\$5.90	13.7%	\$6.00	3.8%	\$6.25	13.2%
2015	\$6.15	13.9%	\$6.15	5.2%	\$5.90	13.5%	\$6.25	3.1%	\$6.15	16.2%
2016	\$6.25	12.4%	\$6.25	4.6%	\$5.90	10.8%	\$6.25	2.7%	\$6.50	8.2%
2017	\$6.15	11.8%	\$6.25	4.9%	\$5.90	6.5%	\$6.75	9.1%	\$6.75	6.5%

Unemployment

Concord’s average 2017 unemployment rate remained steady at 2.4%.^{vi} This low rate, similarly experienced throughout the state, poses a challenge for workforce recruitment. The City’s Economic Development Director has reached out to NHTI and the Manchester Job Corps in an effort to bolster workforce development in our community.

<i>Unemployment by Select Cities</i>					
	2013	2014	2015	2016	2017
Concord	4.8%	3.8%	3.2%	2.4%	2.4%
Dover	4.2%	3.6%	3.0%	2.2%	2.2%
Keene	4.9%	4.1%	3.5%	2.5%	2.7%
Lebanon	3.4%	2.8%	2.3%	1.9%	1.8%
Manchester	5.6%	4.6%	3.8%	2.9%	2.9%
Nashua	5.9%	5.1%	4.2%	3.3%	3.2%
Portsmouth	4.1%	3.5%	2.6%	2.0%	2.1%

Outlook for 2018

Macroeconomic factors will play a large role in Concord's economic evolution in 2018. The data suggest that rental residential demand is high and, at a point, that if not met through the addition of new, quality units could dampen the viability of Concord as a thriving place to live, work and play. The market is finally confronting this reality with the proposed Dol Soul project on Main Street, the Elm Grove redevelopment, and other residential projects in the pipeline for downtown.

In terms of office space, Concord is saturated with average to below-average offerings. Conversion of these spaces to co-working spaces or mixed-uses with retail or residential might make them more viable. A similar argument can be made for existing industrial facilities. Much of Concord's present inventory of industrial does not have the amenities (ceiling heights, for example), required for today's user. However, with construction costs increasing dramatically, these existing properties may still hold an advantage over new construction, but they will need to make significant changes to compete in the New Hampshire marketplace.

ⁱ New Hampshire Housing Finance Authority, "Median Purchase Price of Primary Homes," www.nhhfa.org.

ⁱⁱ Ibid

ⁱⁱⁱ Ibid, "Median Gross Rental Cost," www.nhhfa.org.

^{iv} CB Richard Ellis, "2018 New Hampshire Market Outlook," p.3.

^v CB Richard Ellis, 2018, p.8.

^{vi} NH Employment Security, "New Hampshire Cities and Towns-Unemployment Rates for 2017," annualized for the purposes of this report.