



CITY OF CONCORD

REPORT TO MAYOR AND THE CITY COUNCIL

FROM: Carlos P. Baía, Deputy City Manager—Development
 Suzi Pegg, Economic Development Director

DATE: February 26, 2020

SUBJECT: Economic Development Performance Annual Report: 2019-2020

Recommendation

Accept the report.

Building Permit Activity

The volume and value of building permits eclipsed a 10-plus year high in 2019. 544 permits were issued totaling over \$113 million in value. Historically, Concord’s construction activity has been dominated by State of New Hampshire and Concord Hospital projects. With the State no longer being subject to municipal permitting, the City is increasingly reliant on the Hospital for much of its building permit revenue. In 2019, Concord Hospital represented the largest permits with construction of their new ambulatory care building worth over \$47 million of the City’s total annual permit value. Unfortunately, this construction does not translate into tax base growth as the Hospital campus is largely exempt from the assessment of property tax.

Concord Building Permit Activity				
	#Permits	Total Permit Value	Taxable Property*	Exempt
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	\$31,678,677
CY 2018	523	\$48,049,932	\$42,733,552	\$5,316,380
CY 2019	544	\$113,605,441	\$52,194,821	\$61,410,620

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

Housing

A lack of available housing continues to be a challenge for our community. The rental housing vacancy rate for 2019 was a staggering .3%. Although the table below seems to show that the asking rents for 2-bedroom apartments plateaued in 2019 this data point appears to be underreported. A New Hampshire Housing Finance Authority survey of 417 2-Bedroom Concord units in the same year showed that 64% of the units were charging rents in excess of \$1,300 per month; while 25% of the overall sample charged rents in excess of \$1,500 per month.ⁱ This would seem to correspond to what was reported in a recent *Concord Monitor* article on the late 2019 acquisition of Cranmore Ridge by Brady Sullivan where the company is alleged to be increasing rents significantly, with the article claiming asking prices in the \$1,300-\$1,600 range.ⁱⁱ

Median Residential Rental Rates-2BD								
	Concord		Manchester		Nashua		Portsmouth	
		Vacancy*		Vacancy*		Vacancy*		Vacancy*
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%
2018	\$1,276	1.4%	\$1,270	1.7%	\$1,566	2.2%	\$1,671	0.6%
2019	\$1,262	0.3%	\$1,406	1.1%	\$1,506	0.4%	\$1,720	0.1%

*Vacancy for all units. Source: New Hampshire Housing Finance Authority.

Adequate supply is not being met by the current volume of existing inventory or new residential construction. The New Hampshire Association of Realtors reported that in September 2019 (a typical peak month for home sales), there were 18.3% fewer homes on the market than in 2018 in the state.ⁱⁱⁱ There was only a nominal year-to-year increase in new housing units in Concord as illustrated by the chart below. In fact, if one were to exclude manufactured housing from this count, since many of those new manufactured units were likely replacements for older stock, the number of actual new housing units built in 2019 (75) as compared to 2018 (74) only increased by one. Furthermore, the total aggregate numbers are still well below levels seen in the early 2000’s.

Calendar Year	Single Family Homes	Townhomes	Apartments/Condos	Manufactured Housing	Total New Units
2018	30	14	30	21	95
2019	17	24	34	25	100

To overcome the challenges in the current residential marketplace, the City Council may wish to consider a variety of measures to incentivize housing. Adoption of the form based zoning code will provide for housing in more districts than is allowed today and will afford property owners with some measure of added density. However, the code itself may not suffice. More

aggressive measures may need to be considered such as the reduction or elimination of certain fees for multifamily development. Of course, any change on the collection of fees will also impact the City’s revenue picture.

The following cost breakdown illustrates the magnitude of some of the municipal costs associated with residential development in Concord. The example is based on the 2015 Cobblestone Point senior housing development on Triangle Park Drive but altered slightly to reflect a 140 unit *non-age restricted* residential project in Concord (using 2015 fee numbers):

Building Permit:	\$ 297,754
Trade/Fire Permits:	\$ 25,822
Excavation/Street Damage	\$ 2,133
Engineering Inspections:	\$ 47,888
Water Investment Fee:	\$ 77,839
Sewer Investment Fee:	\$ 72,162
Major Site Plan Application	\$ 24,510
Sign Permits:	\$ 95
Traffic Impact Fee	\$ 202,997
Recreation Impact Fee	<u>\$ 93,024</u>
Total:	\$ 844,224

In terms of owner-occupied housing, the median purchase price of all primary homes in Concord (inclusive of condos, foreclosure sales, short sales, etc.) in 2019 was \$228,533.^{iv} Single family homes, specifically, in Concord during this 2019 time period had a median asking price of \$256,950.^v There were 610 sales registered in 2019, the second most transactions in a single year in, at least, a decade and a half.^{vi} Zillow, the national real estate website, indicated that 2019 saw a 4.2% increase in home values in Concord and predicts an additional 4.4% increase in 2020 leading the site to label Concord’s real estate market temperature as “very hot.”^{vii}

Median Purchase Price—Homes (inclusive of condos, foreclosure sales, short sales, etc.)				
	Concord	Manchester	Nashua	Portsmouth
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
2018	\$226,000	\$230,000	\$262,000	\$432,266
2019	\$228,533	\$245,000	\$280,000	\$465,000

Assisted Housing

Concord is home to the third largest number of assisted (subsidized) housing units of any municipality in the state, which corresponded to its ranking as the third most populous city. In terms of the percentage of assisted units to overall housing stock, Concord's proportion is in line with that of Manchester and Laconia.^{viii} In 2019, ground was broken on the Penacook Landing workforce housing development in Penacook. Phase 1 of that development will create 34 units with an additional 20 units programmed for phase 2. The City also entered into a purchase and sales agreement with CATCH Housing to sell it the former water tower lot on Village Street to allow CATCH to build up to 42 affordable units. This project is slated to break ground this summer.

<i>Assisted Housing Units by Municipality (Cities)^{ix}</i>			
	<i># of Assisted Units</i>	<i>Total Housing Units</i>	<i>Assisted as % of total housing units</i>
<i>Manchester</i>	2,956	49,429	6%
<i>Nashua</i>	1,831	37,054	5%
<i>Concord</i>	1,078	18,542	6%
<i>Dover</i>	999	13,895	7%
<i>Portsmouth</i>	847	10,439	8%
<i>Rochester</i>	659	13,661	5%
<i>Claremont</i>	543	6,317	9%
<i>Lebanon</i>	494	6,698	7%
<i>Laconia</i>	552	10,038	6%
<i>Franklin</i>	374	4,216	9%
<i>Somersworth</i>	372	5,214	7%
<i>Berlin</i>	333	4,755	7%

When viewed from a geographic distribution within the City, Wards 9, 6, 4, and 8 are home to the greatest number of assisted units (in that order). With the addition of the totality of the Penacook Landing and CATCH projects in Penacook, Ward 1 will remain fifth but up from 51 to 147 units of assisted housing.

Ward	# Assisted Units
1	51 (147 with Penacook Landing and CATCH projects built)
2	25
3	0
4	191
5	50
6	268
7	0
8	172
9	321
10	0

Many of Concord's assisted units are age restricted. For example, of the total in Ward 1 (Penacook), 11 are at Whitaker Place Assisted Living; in Ward 4, of the 191, 178 are senior housing and in Ward 6, of the 268, 83 are age-restricted.

It is important to distinguish that the assisted units presented in this analysis do not include dwellings rented via Section 8 vouchers of which the City inspects, at least, 215 annually.

Development of affordable housing is more complicated than standard market rate construction. Macroeconomic factors such as reduced federal commitments for affordable housing; high construction material costs (20%-100% higher for certain raw materials than 10 years ago); a lack of labor (record low unemployment) and increasingly high land costs make profit margins for affordable housing unattractive.^x

Another wrinkle in the discussion of affordable housing, specifically in Concord, is that it has been largely segregated to the downtown. Federal programs for subsidized housing, such as those under which municipal Housing Authorities operated, historically required the location of units within a certain radius of downtown. This policy, along with other economic factors, resulted in an over-concentration of assisted housing with over 350 assisted units and less than 20 market rate units in the heart of downtown. City Council over the last several years has worked assiduously to pursue projects and initiatives that would incentivize greater housing balance in this area. Today, projects such as the Endicott Hotel, the Remi Block, Elm Grove, and the Granite Center, have raised the number of market rate units in this same geographic area to around 110.

Commercial Real Estate Market

Downtown Retail

A sidewalk survey of available ground floor commercial space was conducted on February 21, 2020. The area analyzed was bounded by Centre Street to the north; State Street to the west; and Storrs Street to the east and south.

Downtown Concord Ground Floor Commercial	
	Vacancy
2013	10.30%
2014	10.90%
2015	8.90%
2016	8.04%
2017	5.50%
2018	6.50%
2019	8.5%
2020	8.1%

Despite some perennial vacancies (i.e. 2 N. Main Street), Downtown continues to show steady occupancy. Some tenancies were shifted during the reporting period, particularly in Capital Plaza. One notable closure was Edible Arrangements. New capacity has been proposed as Brixmor, owners of the Capital Shopping Center, recently announced plans to build a 110 Grill and Starbuck's on their site.

Loudon Road/D'Amante Drive/Fort Eddy Road

The Fort Eddy corridor was surveyed on February 24, 2020. Vacancies were found in the recently refurbished Planet Fitness plaza (2), the Market Basket center (1) and the Panera Bread plaza (1). These empty storefronts kept the vacancy rate unchanged from 2019's observation yet still higher than what was typical for this corridor in prior years.

The Loudon Road corridor was surveyed on February 22, 2020 and demonstrated the highest vacancy in three years with closed stores such as the former Toys R Us and Ruby Tuesday. The City has been informed that the latter site is under contract for a non-restaurant use.

These increased vacancies, while not cause for alarm, should be monitored as they may reflect a local level consequence of the changing national "bricks and mortar" retail marketplace.

Heights Retail Vacancy*			
	2018	2019	2020
Fort Eddy Road	2.2%	7.1%	7.1%
Loudon Rd/D'Amante Drive	5.1%	4.1%	6.4%

*Exclusive of the Steeplegate Mall

Steeplegate Mall

The Mall continues to struggle. The Sears anchor store closed after years of tenancy. The out of state mall ownership have made few successful inroads to fully re-tenant the mall.

City staff has encouraged the Mall ownership to consider a master plan for redevelopment of the 50+ acre property. To date, no plan has been submitted for City review.

Office

Office rents in Concord continue below what the Manchester and, particularly, the Portsmouth markets can demand. The Concord submarket vacancy rate of 7.4%, however, was still much better than the national average of 16.8%.^{xi} Top Concord office transactions in 2019 were the sale of the 6 Loudon Road office building for \$5.6 million to local investor Ben Kelly and the sale of 5 Chenell Drive for \$5.5 million to an investment group managed by Tom Balon.

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%
2018	\$16.60	11.3%	\$19.35	11.6%	\$17.50	11.0%	\$23.53	6.0%
2019*	\$17.12	7.4%	\$18.84	8.2%	\$17.22	11.4%	\$24.25	3.3%

*Note: Unlike previous years, Colliers International is only reporting Q4 data, not an average of the entire year.

Industrial

Notable industrial property transactions in 2019 included the sale of 28 Locke Road to Tennessee-based MetalMax for \$1.6 million. 38 Locke Road also sold to a local investor for \$1.95 million. The latter building houses the Overhead Door Company among other tenants. The former Sprague Electric property at 70 Pembroke Road sold for \$3.7 million^{xii} and the new

owners have been investigating possible redevelopment alternatives for the site that could include non-industrial uses.^{xiii}

Average Industrial Asking Rents & Vacancy Rates										
	Concord		Manchester		Nashua		Portsmouth		Salem	
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%
2018	\$5.63	7.0%	\$6.42	4.2%	\$6.36	5.6%	\$6.97	1.7%	\$9.37	13.7%
2019	\$5.86	8.0%	\$6.37	3.3%	\$6.35	6.6%	\$8.55	1.5%	\$8.74	6.4% ^{xiv}

Unemployment

Concord's average 2019 unemployment rate remained unchanged from the year prior. This extremely low rate continued to challenge workforce recruitment.

Unemployment by Select Cities						
	2014	2015	2016	2017	2018	2019
Concord	3.8%	3.2%	2.4%	2.4%	2.2%	2.2%
Dover	3.6%	3.0%	2.2%	2.2%	2.2%	2.1%
Keene	4.1%	3.5%	2.5%	2.7%	2.6%	2.7%
Lebanon	2.8%	2.3%	1.9%	1.8%	1.8%	1.9%
Manchester	4.6%	3.8%	2.9%	2.9%	2.7%	2.6%
Nashua	5.1%	4.2%	3.3%	3.2%	3.0%	2.9%
Portsmouth	3.5%	2.6%	2.0%	2.1%	2.0%	2.0%

Outlook for 2020

Although we have had interest from developers for certain projects that could be substantial such as the mixed use development along the river at Exit 13, the Employment Security property, and other sites, we do not have the high degree of certainty that these and other projects will fully materialize in 2020. There is a fair amount of “kicking the tires” going on as developers continue to grapple with high construction costs, a retail world undergoing adjustments across the country, and—for some—an increasing foreboding of an overdue recession. For these

reasons, it is important for the City to be as proactive as it can be to convince the private development community of our commitment to help get their projects to fruition. As our Main Street experience illustrated, success breeds success. A completed project fosters increased interest in our community leading others to want to be part of the Concord experience.

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- i New Hampshire Housing Finance Authority, “Rent Survey: Number of Units by Gross Rent” (Concord), 2019.
- ii “Priced Out: Increased rent too much for some after Brady’s Sullivan’s Cranmore Ridge Purchase,” Leah Willingham, *Concord Monitor*, February 15, 2020, p.A1.
- iii “Same as it always is,” Jeff Feingold, *New Hampshire Business Review*, November 8-21, 2019, p.4.
- iv New Hampshire Housing Finance Authority, “Median Purchase Price of Primary Homes,” www.nhhfa.org.
- v Zillow Home Value Index, www.zillow.com.
- vi New Hampshire Housing Finance Authority, “Median Purchase Price of Primary Homes (Concord)”.
- vii Zillow
- viii New Hampshire Housing Finance Authority, “2019 Directory of Assisted Housing,” www.nhhfa.org
- ix New Hampshire Housing Finance Authority, “2019 Directory of Assisted Housing,” www.nhhfa.org
- x “The Affordable Housing Crisis, Explained: Blame Policy, Demographics, and Market Forces,” Patrick Sisson, Jeff Andrews, Alex Bazeley, May 15, 2019, www.curbed.com.
- xi “Developers Adapt to Tight Office Market,” Alex Patton, *Northeast Real Estate Business*, October 2019, p.1.
- xii Colliers International, “2019 Year in Review: Concord Submarket.”
- xiii Colliers International, “2019 Year in Review: Concord Submarket.”
- xiv Colliers International, “2019 Year in Review: Concord Submarket.”