

## Office Space Makeover

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MANCHESTER -- When One Beacon Insurance in Bedford searched for new office space last year, company officials found plenty of choices.

"I was surprised how much open space I saw. Bedford, wherever I went, there was space available," said the insurance company's Jeffrey Funk.

One Beacon last June traded in its traditional looking office space in Bedford for brick walls and wooden floors at the remodeled Jefferson Mill at the northern end of Manchester's Millyard.

"We actually reduced our rent cost and got a good space at the same time," said Funk, vice president and branch manager for New Hampshire and Vermont.

### **Shoppers' market**

Companies looking to move or garner more space are searching sooner and finding rental rates so reasonable that firms can afford to upgrade their office digs.

"What companies are doing, it is known as a flight to quality," said Tom Farrelly, executive director of Cushman & Wakefield of New Hampshire Inc., a commercial real estate firm. "They're taking advantage of lower rates and substantially upgrading their image for essentially the same rent."

Rental rates in southern New Hampshire have continued to decline since peaking in the fourth quarter of 2000 and have now decreased to 1997 levels, according to a 2004 year-end report by Cushman & Wakefield.

"Rental rates are unlikely to rise until a period of significant positive absorption can be sustained," the report said.

### **Migration**

Manchester's overall vacancy rate of 13.6 percent in 2004 was lower than Nashua (19.4), Bedford (23.9), Concord (24.4) and Portsmouth (25.1). Salem measured 7.4 percent vacancy.

"My take is, in Manchester, the Millyard-downtown office space has really come alive. It's really filling up," said Ron Boufford, a broker at Prudential Verani Realty. "The suburbs are suffering a little because of that."

In the mid-1980s into the '90s, many Manchester companies relocated to nearby towns.

"Now," Boufford said, "we see that reverse migration going on, people from the suburbs are migrating into the city."

**Arthur Sullivan is seeing that trend first-hand.**

With nearly 2 million square feet of office space in its Manchester inventory, **Brady Sullivan** Properties renovated the Jefferson Mill at 670 Commercial St., across the street from Fratello's restaurant, and now has about 70 percent of the 250,000 square feet of rentable space occupied.

"I'd be very surprised if we're not 100 percent leased by the end of the year in Jefferson Mill," said Sullivan, a principal of **Brady Sullivan** with partner Shane Brady.

And, unlike many other landlords in southern New Hampshire, Sullivan about six months ago hiked the rent at Jefferson Mill from \$10.50 to \$12.95 a square foot.

"Still, with the increase in prices, we're definitely below the suburban market and the majority of Class A space in the city," Sullivan said.

He counts at least three tenants in the Jefferson Mill that moved from Bedford, including One Beacon, who are taking advantage of Manchester's burgeoning central city personality and utilizing the buildings bearing signature, custom architecture found alongside the Merrimack River.

"The pendulum may be swinging in our direction now," he said. "I remember there's been years it's gone the other way."

**Planning pays off**

City Planning Director Robert MacKenzie said planning began a decade ago to take advantage of the former mill buildings.

Developers aren't building new office space.

"Virtually all the growth has been in conversions, primarily in the Millyard," he said.

"I think the Millyard has become an attractive location for a lot of businesses," MacKenzie said. "There have been conversions and what I would call upgrades, space that was formerly warehousing has turned into office space."

A decade or so ago, many companies shied away from downtown Manchester and the Millyard. "It was dirty; it was rundown" and didn't have sufficient parking, Boufford said.

"Now, they're asking to go downtown and they don't even bring parking up," he said. "If they want it bad enough, they look past the negatives."

C.B. Richard Ellis, a real estate firm, predicts in its 2005 market outlook "a moderate increase in office vacancy" in the Interstate 93 and Route 3 corridors of southern New Hampshire starting early in 2005 and continuing through the year.

"This expected increase in vacancy rates will continue to create a favorable environment for tenants in the market, a trend which could continue into the 1st quarter of 2006," the report said.

### **Blend and extend**

Some tenants looking for space in 2005 should benefit from "more favorable lease terms and aggressive rental rates" from landlords, it said.

At least a few landlords, recognizing the market has headed down, are coming up with creative ways to keep tenants. Known as "blend and extend," some building owners are agreeing to rip up existing leases and renegotiate a longer lease for a lower rent, Farrelly said.

Some building owners are able to refinance their mortgages, saving money on interest that helps soften the blow of the lower rents, he said.

For One Beacon, the insurer is paying 25 percent less in rent for its 10,000 square feet than it did in Bedford. The company also shaved a few thousand feet that it previously needed. And the 40 employees are happier in their mill office space.

"We went from traditional suburban office kind of space to a 20-foot high ceilings and brick wall," he said. "What we did was, we left the entire space open with cubicles so everyone in the office can see the river view."

With the hockey and baseball teams and easier highway access, the location was attractive for the insurance company.

"There's a lot going on in Manchester. I think there's some momentum there and people want to be part of the city," Funk said.