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Positive 1st quarter for markets in New Hampshire - by Kristie Kyzer

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New Hampshire

At Colliers International | New Hampshire, we internally track over 19.9 million s/f of office space and 64.05 million s/f of industrial space including only buildings larger than 10,000 s/f across six New Hampshire submarkets.

With each new year, our brokerage teams closely evaluate their markets and critically assess the use, quality, and amenities of each property. This thorough reevaluation led to a recategorization of a portion of both office and industrial markets. For example, moving a general industrial building into the warehouse/distribution category or moving a class A building into the class B category. It also contributed to the removal of some buildings if the use changed, for instance, from office to medical.

During the first quarter, office vacancy rates throughout the submarkets continued to drop, with the Portsmouth market remaining the lowest in the state at 4.78%. Throughout the market, average asking rates steadily increased to $17.55 full gross, with Class A rising to $22.02 full gross.

This trend was particularly true in markets that have strengthened, like the Nashua and Manchester submarkets. In Nashua, a confidential tenant subleased 14,000± s/f at 10 Tara Blvd. Londonderry School District took the remaining 11,000± s/f of first generation office space on the main floor at 6 Kitty Hawk Landing in Londonderry.

The Concord submarket, on the other hand, saw mixed results. Overall rents in the capital city fell below average, despite its class A rates being second highest in the state. The lack of available class A inventory supports this high asking rate. However, the lack of inventory may be due to the small class A market when compared to other submarkets. Concord has 545,000± s/f of class A space, but only 23,000± s/f available, equating to a 4.32% vacancy.

We see a similar trend in Portsmouth, with 4.4% vacancy in Class A buildings. There is just over 86,000 s/f available in a market with an inventory of 1.97± million s/f. Again, the demand for class A space in the market continues to promote an above average lease rate.

In the Salem submarket, class A vacancy rates are dropping, yet still remain the highest market-wide at 17.93% (81,688± s/f). Interestingly, rents are just above the average. This anomaly may be due to the submarket's location. Our Boston Colliers office is reporting a year-over-year rent increase of 5.2% in their suburban market. Despite the above average rents in the Salem market, when compared to the Boston suburban market rents, New Hampshire rents seem low. This could be enough of an incentive for tenants to choose New Hampshire and potentially explains why Salem's rents are just behind Portsmouth.

With vacancy dropping in both the office and industrial markets, we are attributing this to new companies moving to New Hampshire, as well as the organic growth of companies already operating out of N.H. We saw the Norwegian-based AutoStore open a new 20,000 s/f U.S. headquarters in Derry and Allegro MicroSystems expanded their footprint at their Perimeter Rd. location in Manchester. In the Nashua submarket, Hitchiner Manufacturing, in Milford, will be constructing a new 85,000± s/f facility and Reliable Respiratory opened their first New Hampshire location in Merrimack.

In the industrial market, vacancy has gradually dropped to 4.47% and asking lease rates increased slightly to $7.03 NNN. We saw the largest decrease in vacancy in the General Industrial category, which may have been due to a few large deals in Q1. In Londonderry, Kluber Lubrication took 65,000± s/f at 4 Kitty Hawk Landing and Arrow Tru-Line Inc leased 26,000± s/f, opening their first N.H. location, at 15 Liberty Dr. At 131 Broadway in Dover, Acadia Kitchens subleased a 14,000± s/f space formerly leased to a cabinet making shop.

As vacancy continues to drop, we've noticed that the majority of the remaining available space in the market is obsolete or out-of-favor property types. We are seeing many users who need higher clear heights, better connectivity, and more power, which most of the available space is lacking.

With limited inventory and even less "in demand" space available for lease, new "spec" or "near spec" (50% pre-leased and 50% to-be-leased) construction should be gearing up. That, however, is not the case. While there are some "big-box" single tenant, net leased projects coming out of the ground near the Manchester-Boston Regional Airport, those few projects are the exception, not the rule, in New Hampshire.

High costs for land, site costs, building costs, etc., combined with near stagnant lease rates, are the main reasons for little new spec construction. Owners are going to have to start weighing the cost of new construction verse the cost to upgrade their buildings to attract tenants that are actively looking in the market.

Time will tell if the strong economy and strong demand will lead to speculative construction.

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