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Mid-year report and trends: New Hampshire's commercial office and industrial market - by Bob Rohrer

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Bob Rohrer,
Colliers International

A look at vacancy rates and lease rates across the state point to several interesting trends – and the general conclusion that the New Hampshire commercial real estate market has tightened up and slightly heated up. Colliers International | New Hampshire internally tracks 61.6± million s/f of industrial space and 17.3± million s/f of office space in buildings larger than 10,000 s/f across six New Hampshire submarkets.

At the close of Q2 2017, our research shows the New Hampshire industrial market at a vacancy rate of 5.48% (3.4± million s/f) which is the lowest vacancy rate in well over 10 years. The vacancy rate at the end of Q2 2016 was 7.01% (4.3± million s/f). Additionally, about 260,000 s/f of industrial space was added to the asset base, state-wide. That translates to a year-over-year absorption of close to 1 million s/f! That is a strong number; doubly so when you consider the lack of inventory.

A recurring theme over the past few years is that there is little industrial inventory available for sale to end-user buyers. Low interest rates and a steadily improving business environment continue to trigger interest in owning real estate from small to medium sized companies. This trend accelerated in the past twelve months and will continue to do so for the balance of the year. Of course, with very little inventory, this may not yield a great deal of activity. End users may have to consider alternatives such as leasing instead of owning or, given the lack of inventory, constructing new facilities.

Construction costs, land scarcity, and increasing site costs continue to make new construction a difficult path for many companies to take. We have seen some take the plunge, increasing the workload on the already overheated construction industry, thus exacerbating new construction costs. Interestingly, with only a few exceptions, asking lease rates remain rather stagnant across the New Hampshire submarkets. This further complicates the new construction decision. The Portsmouth area has reached a point where low vacancy rates (2.1%) are pushing companies to consider adjacent markets, like the Rochester area. This trend will likely continue through the end of 2017 in Portsmouth and perhaps spread to the Manchester submarket, as well.

The office vacancy rates and asking lease rates showed improvement as well. The overall vacancy rate in the markets we track is at 11%. Absorption on a year-over-year basis measured 365,000± s/f, which includes 153,000± s/f of space added to the asset base.

Not surprisingly, Portsmouth continues to be the hottest submarket in New Hampshire. Low vacancy rates have translated to higher lease rates and less Landlord incentives. The overall office vacancy rate in Portsmouth is currently at 4.9% – just a bit more than 200,000 s/f. Just as my economics 101 text book taught, the tight supply has led to increased asking lease rates, which are now averaging over \$23.50 per s/f (gross). Class A space in Portsmouth remains above \$31.00 per s/f, the highest of all New Hampshire submarkets, by far. While the desire to locate in the Seacoast area may not diminish anytime soon, office users are beginning to look beyond Portsmouth and Dover. This is likely to continue well into next year.

Most of the submarkets we track show improved year-over-year office vacancy rates, but not as robustly as seen in the Seacoast. The Manchester area vacancy rate dropped two percentage points, to 11.75%. Salem and Nashua area submarkets saw vacancy rates drop slightly more than one percent to 13.10% and 13.45%, respectively. Concord and Rochester area submarkets did not show a year-over-year improvement in office occupancy rates. Asking lease rates, however, on a state-wide basis, did not follow the natural supply/demand curve, remaining essentially unchanged year-over-year. We suspect this trend will change, particularly in the Manchester and Salem submarkets. There appears to be enough momentum to continue to move vacancy rates down a bit more over the next twelve months and this time it should start to move asking lease rates higher.

New Hampshire office users are also seeking out space that is amenity rich. Amenities such as restaurants, shopping, and other services are increasingly becoming part of the “needs list” for tenants. This would typically favor downtown markets, but convenient and inexpensive parking, which is in short supply in New Hampshire’s urban centers, remain important to office users. Sites that can provide parking and are in an amenity rich environment will see increased interest.

New Hampshire’s office and industrial real estate market has come a long way since the difficult period of 2009/2010. With fingers crossed, we believe the next twelve months will see continued improvements across the six submarkets we track.

Bob Rohrer is managing director of Colliers International | New Hampshire, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540