Retail, office and industrial sectors are adapting to the market and thriving - by Kristie Kyzer

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At the beginning of last year, we expected 2019s commercial real estate market to remain strong, but face some challenges. Happily, 2019 proved us right! The commercial market is still facing challenges, including obsolete space in the industrial market, the availability of large office blocks, or the “retail apocalypse” caused by online retailers, but each sector is finding new ways to adapt. Not only was there an uptick of investment sales throughout the office, industrial, and retail categories, there was ample ground-up construction as well. Additionally, all the real estate categories we track adapt to increasing its occupancy rates.

Retail Market

The retail market, which many said was on the verge of an apocalypse in NH, evolved throughout the year. While many retailers closed or downsized, especially big-box stores, many new users entered the market. Some traditional users, new to the market, opened new storefronts in smaller footprints. Some of the former big-box store locations were subdivided making room for some new uses, such as HomeSense and Sierra Trading Post who now occupy the former Bob’s Store location in Bedford, NH.

The market is strengthening as non-traditional users are taking more space. Experiential retailers focusing on entertainment, fitness, and movement-based activities are becoming very popular. Over the past few years more indoor trampoline parks and go-kart facilities have entered the market. This year, fitness facilities backfilled downsized space. In Seabrook, Kohls downsized its space on Lafayette Rd. and Planet Fitness took over the 20,000+ s/f surplus.

Other non-traditional uses include medical-related users and CBD-based retailers, which are finding new retail locations. CBD retailers typically occupy smaller spaces, but because of the number of stores opening across the state, the total amount of square footage being occupied is significant enough to favorably improve the occupancy rate. It will be interesting to see which operators stay in place once the market becomes saturated. In our opinion, the franchise-based operators who seem to know their product line the best will be the ones that outlast the competition.

With non-traditional retail users, like trampoline parks, themed fitness operations, and CBD stores, opening across the state and other retailers adapting and creating smaller storefronts, the retail market appears to be adjusting and thriving.

Office Market

One of the biggest challenges we talked about going into 2019 was the lack of large blocks of office space. This challenge is still true along Elm St. in the Central Business District in Manchester, but other areas have multiple large blocks open or that are coming to the market this year.

In the Manchester millyard, Southern New Hampshire University is in the process of renovating and relocating to the 190,772 s/f Langer Place mill building and vacating more than 82,000 s/f next door at 186 Granite St. The relocation is scheduled to be completed by the end of Q3 2020, moving most of its operations from Granite St. and potentially some from its main campus. Another change in the millyard involved Oracle’s announcement that it will be permanently closing the former 100,000 s/f DYN office located on Dow St. This is scheduled to be completed during Q1 2020. Both availabilities will open excellent leasing opportunities in the Manchester millyard.

While several companies expand their footprint and new companies enter the market in 2019, a significant number of companies downsize to smaller footprints, with some able to maintain its workforce. An extreme example of this was Cigna's Q4 announcement that it will be selling its 100,000 s/f Hooksett location and move the majority of its employees to a telecommute/home office platform. Cigna joins several other office users that have, over the years, embraced the work from home model. It will be interesting to see if more companies rely on employees who telecommute as a method of attracting talent and, in turn, lower their real estate requirements.

Leading into 2019, we discussed spec office development, particularly in the Portsmouth market. During Q1 2019, two spec office buildings were built in Portsmouth, bringing almost 97,000 s/f to the market. By the end of the year, those two buildings had attained an occupancy rate of nearly 78%. Hopefully 2020 will see the same trend with another two new spec office buildings breaking ground in 2019. In Bedford, a 44,000 s/f Class A building is well underway on Constitution Drive and a 72,000 s/f Class A office building broke ground on Arboretum Dr. in Portsmouth. Being in tight markets, we should expect the buildings to see a lot of interest.

Industrial Market

Occupancy rates in the industrial market remain historically high and much of what remains on the market face a shared challenge: functional obsolescence. The market is seeing companies adapt to new technology, creating a need for higher bays, more electricity, and different layouts.

Most spaces that are left on the market do not fit the necessary criteria, leading more owner/users to build additions or facilities throughout the state. For example, in Q1, Prime Source Foods, formerly Poultry Product Northeast, announced its plan to build a 105,000 s/f processing and distribution facility in Londonderry, after outgrowing its 25,000 s/f facility in Hooksett. In Q3, Safran Optics 1 in Bedford celebrated the groundbreaking of a 15,000 s/f addition at its 44,950 s/f. In Q4, Index Packaging Inc. of Milton plans to build a 130,000 s/f commercial facility at Granite State Business Park in Rochester.

Continuing on the positive track, the industrial market saw a large amount of investment sales in 2019. This is in keeping with a national trend. Investors in NH, and nationally, are focusing on industrial product, partially due to the state's high occupancy rates, at 95.1%, and improving rental rates. Some owner/users are also taking advantage of the spike in interest in single tenant leased assets, by selling their properties to investment groups and leasing them back, thus taking advantage of the equity they have in their real estate.

While each category faced challenges this year, the retail, office, and industrial sectors are adapting to the market and thriving. With occupancy rates rising and companies still demanding space, we will hopefully continue to see new construction throughout the state. As existing companies expand and new companies enter NH, commercial real estate should remain strong throughout 2020.

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