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Work-from-home trend will shift office occupancy while industrial market sees multiple transactions - by Kristie Kyzer

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Ending the second quarter with the uncertainties that COVID will have in New Hampshire has left many unknowns in commercial real estate. As the state passed the early stages of the pandemic, and the “Stay at Home” order was lifted, more employees are back to work or working from their homes. This trend will likely shift occupancy in the office market as companies decide if they need less space with a work-from-home (“WFH”) platform or, perhaps, more space to accommodate social distancing. On the other hand, the industrial market continues to see multiple transactions, with many companies thriving as a result of the pandemic. The market is currently feeling the short-term impact from COVID, but the long-term effect is unclear.

The occupancy rate in the industrial market remained relatively flat, with a dip of 0.02% year-over-year, while rents increased by $0.21 per s/f, or 3.1%. With occupancy remaining above 94%, a steady amount of owner-user construction was either started or completed during the quarter. Two notable expansions broke ground; 13,000 s/f at TRM Microwave in Bedford and 15,810 s/f at Integra in Nashua. In Londonderry, MuShield completed its 6,000 s/f expansion of manufacturing space on Ricker Ave., bringing the total building up to 18,000 s/f. This activity is a positive indicator for the industrial market and we hope this trend continues.

There were a few sales that closed during the second quarter. In the Salem submarket, 3 Corporate Dr. in Derry, a vacant 15,000 s/f industrial condominium, sold for $1.3 million ($86.67 per s/f). In Salem, Carpenter & Patterson purchased the 20,950 s/f flex/R&D building at 1 Northwestern Dr. for $2 million ($97.12 per s/f). The building is the longtime home of Novia, a subsidiary of Carpenter & Patterson. Over in Concord, the 27,678 s/f manufacturing building at 25 Henniker St. sold for $2.1 million ($75.87 per s/f) to 30 Eagle LLC, part of NH Distributors, LLC. In Dover, Index Packaging purchased the former Foster’s Daily property, a 45,938 s/f manufacturing building, for $3.2 million ($69.66 per s/f). Included in this purchase was additional abutting lots, totaling roughly 25 acres. With the ability to expand on this site, it looks like Index Packaging will no longer be moving forward with its plan to build a new facility in Rochester, as previously discussed. While these sales are strong indicators for the industrial market, we noticed a significant drop in the number of sales from the first quarter due to the pandemic.

On the leasing front, we saw multiple smaller size deals (under 5,000 s/f) and a few notable larger size deals. Autostore signed a sublease of 26,460 s/f at 15 Liberty Dr. in Londonderry. This is in addition to its owned 20,000 s/f condominium at 3 Corporate Park Dr. in Londonderry. Bedford Cottage leased 20,000 s/f of space at 2456 Brown Ave. in Manchester at the beginning of the quarter. In Lee, Portland Co. signed a lease for 30,000 s/f at 13 Buzzell Rd. The company will not occupy the space until the end of Q2 2021, as the current owner continues to occupy the building until then. Even with a noticeable slowdown in leasing activity, seeing deals getting done is a positive sign for the industrial market.

Due to the pandemic, we have also seen some industrial companies grow. Vapotherm announced plans to expand its manufacturing capabilities due to COVID and could add 350 manufacturing jobs in Exeter. The company is focused on developing and commercializing its HI-VNI technology products used to treat patients in respiratory distress. Lydall, a Rochester company, is ramping up manufacturing efforts to produce more N95 respirators and surgical masks, adding two new production lines. The company plans to produce five times its current capacity by May 2021, creating a need for more employees as well. These are just a couple of examples of manufacturing companies thriving, which could lead to an increased need for production space in the state.

Unlike the industrial market, we are seeing the office sector heading into more uncertain times. More employees are back at work, but many have continued with the WFH platform - some until the end of the year and others saying this move will continue indefinitely. This re-officing wait-and-see makes it hard to predict what companies will do in terms of adjusting their footprint that, in some cases, have become too large. It could take a year or longer for the market to feel an impact on the occupancy rate, but we believe there will likely be a spike in sublease space hitting the market.

Already this year, the office market's occupancy rate dropped by 0.7% year-over-year, ending the quarter at a still healthy 91.6%. Rents, however, remain nearly flat, showing a modest increase of $0.02 per s/f, or 0.1%. Overall, the quarter was relatively quiet with only a few notable deals. Gatehouse Treatment doubled its footprint moving from 4,800 s/f on Northeastern Blvd. into 9,750 s/f at 155 Main Dunstable Rd. in Nashua, bringing the building's occupancy to almost 90%. In Manchester, AutoDesk renewed its 29,380 s/f in the millyard. Fortinet, Inc. relocated and downsized as it moved into 7,570 s/f at 51-53 Regional Dr. in Concord. While companies continue to reassess their working platform, we will most likely see (at least) a short-term drop in activity.

In addition to the aforementioned leases, we saw one notable sale this quarter. The 17,000 s/f multitenant, Class B office building at 4 Technology Dr. in Londonderry sold for $2.2 million ($123.35 per s/f) to a local investor. Most likely, we will continue to see less sales activity in the office sector this year as people try to navigate the market.

As New Hampshire moves forward from the pandemic, much is unknown of the long-term impact this will have on commercial real estate. As employees return to work, companies will have to choose a working platform. A WFH model will heavily impact occupancy rates. Companies may also need more space per office employee to account for social distancing and COVID mandates. The industrial market has such a high demand for space, occupancy rates will most likely stay strong. We will need to distance ourselves further from the pandemic to fully understand the lasting impact it will have on the commercial real estate market.

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