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New Hampshire office market remains unsettled, while industrial market remains busy - by Kristie Kyzer-Russell

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At the beginning of 2020, occupancy rates in New Hampshire's office and industrial markets were solid – above 92%. The pandemic has shifted occupancy rates in both sectors, but in different ways. The office market remains unsettled as the state moves farther away from the initial pandemic related shut down. Many companies are waiting to decide their future office plans and needs. Given the situation, it is not surprising that office occupancy rates dipped year-over-year, ending the year at 90.5%. On the other hand, the industrial market was busy, partially from some industrial companies adapting production to keep up with the demand from the pandemic. With a high occupancy rate of 95.6% at the end of the year, industrial investors were active and so was industrial construction.

Although the office occupancy rate fell by 0.68%, rents rose by \$0.28 per s/f (a 1.5% jump), ending the year at \$19.01 modified gross. The increase is not necessarily surprising considering the new space hitting the market is mostly higher-end space. The bump in rent will likely reverse and steadily decline if the market sees little or no absorption over the next year.

Even with the daily media reminder that companies are readily adopting the “work from home” (WFH) business model, it remains to be seen what direction occupiers will truly take. Over the past two quarters, several companies tied to the medical field made office decisions. Novocure, Inc. leased an additional 19,000 s/f in Portsmouth and Sunrise Labs took an additional 5,000 s/f of office space, plus outdoor patio space to accommodate social distancing guidelines in Bedford. Conversely, Health Dialog consolidated its footprint to 33,000 s/f in Bedford. Other professional office tenants are also making office decisions. Wheelabrator Technologies expanded into 50,300 s/f of newly built space in Portsmouth and HarborOne Mortgage consolidated, relocating from multiple floors at Chase Block to the sixth floor at 650 Elm St. in Manchester.

The direction the office market is taking is unclear, and while some people think the market is retreating, particularly in cities, we believe the best way to describe it is – evolving. The pandemic

pushed a lot of companies to a WFH platform. Some announced plans to potentially downsize their offices and stick with a WFH platform due to the investment in the technology and the ability to pull from a wider employee pool. Others have announced a hybrid model, splitting time in the office and home, allowing office space to stay as is – at least for now. We have also heard about companies pulling out of big cities and into several spread out suburban locations to follow employee's migration. These trends will have different impacts on the market, but we believe that the WFH approach will start to affect occupancy rates in 2021.

While New Hampshire is in a wait-and-see phase, an immediate impact was seen with the office occupancy rate slightly dropping as some companies vacated space. However, the impact was not as significant in 2020 as we believed it would be. In 2021, some companies will undoubtedly downsize or close New Hampshire locations, while others may expand to follow social distancing guidelines. As more companies make office decisions, we believe this will lead to lower occupancy rates.

Unlike the office market, the industrial market is staying strong as occupancy rates rose over the quarter and ended on a positive note with a year-over-year absorption of 188,702 s/f. With an increase of 0.29% in the occupancy rate, and ending the quarter at 95.6%, it is not surprising to see rents following suit. Overall rents finished at \$7.05 NNN, rising \$0.51 per s/f year-over-year.

The strong occupancy rate continued to attract industrial investors this quarter. The top investment sale to finish the year involved Angelo Gordon, an investment firm, expanding its New Hampshire portfolio by purchasing 150 Ocean Rd. in Greenland for \$29.4 million (\$86.53 per s/f). This property sold as part of a \$151 million (\$90.45 per s/f) portfolio sale, which included three Mass. properties for a total of 1.7 million s/f.

The strong occupancy rate is a good sign for landlords, but not always positive for companies needing to expand or find new facilities. Over the year, there have been many companies that have opened new facilities or expanded on-site. Bellavance Beverages completed its 142,000 s/f warehouse/distribution facility in Londonderry and Stonewall Kitchen completed an 81,500 s/f expansion at its warehouse/distribution facility in Rochester.

Additionally, some build-to-suit projects were announced during 2020, which points to an uptick in industrial construction next year. Two large projects that are seeking approval include the Hudson Logistics Center, a 2.5 million s/f development, and the Granite Woods Commerce Center, a 500,840 s/f facility in Hooksett. If these projects are approved, they will bring much needed high bay warehouse/distribution space to the market.

It is not surprising that the office and industrial sectors have been impacted differently from the pandemic. But, after a year of uncertainties it is slightly reassuring that occupancy rates in both categories finished above 90%. The lingering question remains, what impact will the pandemic have on commercial real estate? Although occupancy rates in the office market did not drop as much as we expected, more space is likely to hit the market in 2021. The industrial market occupancy rate will remain high in 2021 and as new projects are being proposed, space could be occupied quickly.

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