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Industrial market continues to attract investors - office sector sees more first class space hit market - by Kristie Russell

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Last year at this time, we were writing about the uncertain direction of the office market due to many companies moving to a work-from-home platform and how the industrial market was thriving. A year later, the industrial market is still strong with the vacancy rate steadily falling, especially in the warehouse/distribution category. This sector is also still attracting investors and tenants are leasing large blocks of space. The office market has begun to establish its direction for the immediate future. Even though more companies have called employees back to the office, there has been a dramatic increase in the overall vacancy rate statewide.

At the end of the second quarter, the overall vacancy rate in the office market was at 10.2%, 210 basis points higher than last year. The biggest vacancy climb was in the Class A category, rising by 3.4% year-over-year. This increase is due to two large tenants leaving the Concord submarket and some new construction projects creating first-generation vacancies in the Portsmouth submarket.

In the Concord submarket, Lincoln Financial vacated 107,000 s/f at 1 Granite Place in Concord and Cigna left 97,200 s/f at 2 College Park Dr. in Hooksett. The class A vacancy increased by 174,000 s/f in the Portsmouth submarket. The largest opening was created by Liberty Mutual leaving 56,800 s/f at 100 Domain Dr. in Exeter. In Portsmouth, Wheelabrator Technologies vacated 29,650 s/f at 100 Arboretum Dr. when they moved into 90 Arboretum. Even with Wheelabrator moving, the newly constructed building at 90 Arboretum has 22,600 s/f of unoccupied space. Another new construction project affecting the vacancy rate is 145 Maplewood Ave. At the end of the quarter, there was roughly 32,000 s/f available for lease or sublease in this 71,400 s/f downtown class A building.

During the quarter, some investors took advantage of the office market conditions, acquiring properties at below market value. This includes the Chase Block in downtown Manchester, which was 62% vacant at the time of the sale, and sold for \$1.8 million (\$38.30 per s/f) to Elm Grove Realty. Brady Sullivan Properties purchased two vacant buildings – 2 College Park Dr. in Hooksett for \$2.5 million (\$25.72 per s/f) and the south tower and land at 1 Granite Place in Concord for \$3.4 million (\$31.75 per s/f).

The vacancy rate for office was on a steady upward trend before the pandemic hit, but since the shutdown the rise has accelerated. Time will tell if companies become attracted to these large class A vacancies or if the rate will continue its steep incline.

As we pass the halfway mark for 2021, the industrial market's overall vacancy rate remains low, falling by 170 basis points and ending the quarter at 3.7%. The largest drop in the rate was in the warehouse/distribution (W/D) category, falling by 270 basis points year-over-year. With a vacancy rate of 2.7% in the W/D category, rents continue to spike, increasing by \$2.17 per s/f since last year, and ending the quarter at \$9.97 NNN (market adjusted). This sector's rent is \$2.40 per s/f higher than the overall average industrial market rent.

Higher rents have kept investors interested in the W/D category. One of the top sales of the quarter involved KPR Centers LLC, a N.Y.-based investment firm, purchasing two fully leased cold storage facilities in Londonderry. 219 Rockingham Rd., a 180,600 s/f facility, was bought for \$28.4 million (\$157.39 per s/f) and 6 Rockingham Rd., a 117,412 s/f facility, sold for \$18.175 million (\$154.80 per s/f). In the Nashua submarket, a Mass.-based investment group, Equity Industrial Partners, acquired the longtime vacant building at 1 Bon Terrain Dr. in Amherst for \$24 million (\$60.62 per s/f). The 395,920 s/f W/D building reached full occupancy signing two leases.

In addition to the investment sales, there were also a few owner-occupier sales. Rhino Capital Advisors, a Mass.-based investment group, sold the 52,326 s/f W/D building at 22 Charron Ave. in Nashua for \$7.1 million (\$135.69 per s/f) to Protolabs, which leased the building in January 2021. In the Salem submarket, Upcycle Solutions, a recycling company, relocated from Londonderry to 9 Tinkham Ave. in Derry, purchasing the 17,460 s/f building for \$1.475 million (\$84.48 per s/f).

Some of the larger leases were also in the W/D category. 1 Bon Terrain Dr. in Amherst reached full occupancy with Alene Candles expanding its N.H. presence by leasing 208,700 s/f and Novo Building Products entering the N.H. market by leasing 217,200 s/f. In Manchester, after True Value downsized into 60% of 333 Harvey Rd. last year, almost 290,000 s/f entered the market. XPO Logistics then leased 182,130 s/f, bringing the building vacancy back down to 15%.

Although the vacancy rates in the industrial and office markets moved in opposite directions, New Hampshire is still in a strong position. The industrial market continues to attract investors and owner-occupiers, steadily dropping the vacancy rate. On the other hand, the office sector continues to see more and more first-class space hitting the market. Hopefully, the large blocks of available space will attract new tenants to the market, but only time will tell.

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