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Industrial market vacancy rates continue to fall while office market rates steadily grow - by Kristie Russell

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The New Hampshire market continues to be dominated by industrial transactions this quarter while the office market is getting more active. The story of the industrial market has been similar all year – vacancy rates continue to fall and asking rates are still climbing. The low vacancy rate has led to a steady rise in the average sale price, leading to more companies weighing the option of new construction versus finding an existing facility. On the other hand, the vacancy rate for office space rose over 2% this quarter, partially due to some large tenants leaving the Concord and Nashua submarkets. Even so, office sales are more in line with pre-COVID prices, especially as owner-occupiers purchase buildings. Hopefully, this is the beginning of a shift in the market.

The low vacancy rate in the industrial market has led to not only higher rents, but also higher sale prices. Before COVID, during Q3 2019, the average sale price was around \$74 per s/f. Two years later, with a spike in demand, the average sale price has increased to about \$86 per s/f. This shift is mostly due to investor sales, although some owner-occupier sale prices are rising as they are having to outbid investors for available buildings.

This increase in sale prices has led many companies to weigh whether to build a new facility or purchase an existing building. The results have varied based on the submarket. In the Manchester submarket, Baron's Major Brands had approvals for a new facility to consolidate its multiple warehouses, but decided to purchase a building in Bedford. Wire Belt of America had also been working on plans for a new building, but instead decided to lease the former Walmart building in Bedford.

However, in the Dover submarket, more companies are turning to construction rather than existing buildings. Although there is less inventory and available space in this submarket, over the last quarter LDI and Intec Automation completed construction on their new buildings in Rochester. Also, Pella Windows' new home in Rochester will soon be completed.

Switching over to the office market, the vacancy rate has steadily grown over the last two years with

a more dramatic increase since the pandemic. Over the last year, the vacancy rate rose by 2.7% throughout the state, with the highest shift in the Concord submarket. Although this is one of the smaller submarkets we track, the vacancy rate rose by 8.1% year-over-year due to vacancies in two buildings - 97,200 s/f being vacated at the end of 2020 by Cigna in Hooksett, and Lincoln Financial closing its operations in 114,000 s/f in Concord. The vacancy rate in the Nashua submarket jumped by 3.1% due to Dell Technology leaving 198,000 s/f in Nashua this quarter.

On the seacoast, there is a slightly different narrative in the office market as some companies moved to the submarket and others expanded. F.H. Cann & Associates took 56,800 s/f in Exeter, and companies like Sentient Decision Science, NECI, and Jordan Park Group expanded their footprints in the submarket. Even with these deals, there was a 2.8% increase in the vacancy rate. This is partially due to new buildings being completed and adding available space to the market.

Although the vacancy rate has continued to rise all year, sale activity in the office market is starting to pick back up. The raw data shows that the sale price per s/f is almost back to where it was before the pandemic. Class B average sale prices have slightly dipped in the past three years, due to some higher than average investment sales in 2019. The Class A market has seen the opposite trend as the per s/f price has increased significantly from 2019.

When looking more closely at office sale transactions from the first half of the year, many were not traditional sales. During the second quarter, Brady Sullivan Properties purchased two vacant buildings in the Concord submarket for \$25 to \$31 per s/f. One of the properties is now before the planning board for conversion to residential use. In the Manchester submarket, a downtown retail/office building with a high vacancy rate sold for \$38 per s/f.

This quarter, more traditional sales occurred at an increased sale price per s/f. In addition to an investor purchasing a fully leased building at \$143 per s/f in the Nashua submarket, two owner-occupiers purchased their buildings for roughly \$95 to \$125 per s/f. These rates are more in line with what we saw before COVID, with the occasional outlier. Hopefully, this trend will continue and strengthen the office market.

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