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“Smart money” flows into the Southern New Hampshire/Seacoast industrial markets - by Michael Harrington

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Michael Harrington

I recently completed a survey of the Southern New Hampshire and Seacoast industrial property markets that included Hillsborough County, Rockingham County and Merrimack County. The data I used included information from CoStar Analytics, the results are bulleted below. The search criteria for those counties included industrial buildings of 20,000 s/f or greater. The search identified 731 properties and generated the following key performance indicators (see chart):

| | |
|---------------------------|--------------------|
| Total Inventory Surveyed: | 51.7 million s/f |
| Vacancy Rate: | 5% |
| Market Rents: | \$9.27 per s/f NNN |
| Market Sale Price: | \$94.00 per s/f |
| Market Cap Rate: | 7% |

What do these indicators tell us about the market? At the risk of repeating information I opined on in last year's Southern New Hampshire industrial spotlight, demand for industrial space continues to outpace supply, creating a robust seller's/landlord's market with market conditions continuing to stay above the 10 year historical averages (vacancy at 5% vs 7%, market rents at \$9.27 per s/f vs. \$7.00 per s/f NNN, cap rates at 7% vs. 8% and sale prices at \$94.00 per s/f vs. \$70.00).

As you would expect, this has led to an increase in new construction. Construction of industrial buildings have increased, delivering net new space to the market in the past 12 months of 205,000 s/f with about half of that, 101,000 s/f absorbed during that same period. Even with newly constructed space slightly outpacing leasing, it's not a significant enough gap to create an overbuilt condition that would make me predict a negative effect on the market. The trend of delivering approximately 200,000 s/f of net new space per year is forecasted to continue at roughly the same pace through 2026.

For those who own industrial property or who advise owners with industrial property's in these markets, seeing a market rate for your building of \$94.00 per s/f might be a shockingly "good" surprise. But this is no surprise to those who have represented users and investors looking to purchase property. Asking prices for industrial property have rapidly increased in the past three years as investors and users enter the market and bid-up properties. Only recently, with the increase in interest rates, we are beginning to see signs of the market leveling off. As mentioned earlier, the year over year increases from 2019 to 2021 has been dramatic. Increasing from an average of \$76.00 per s/f in 2019 to \$82.00 per s/f in 2020 to \$94.00 per s/f in 2021 is not something experts in the market would have predicted, as market values in New Hampshire have been historically stable. However, we do need to keep in mind the significant differences in property type. For example, the market has seen several large four/five star triple net industrial properties trade well over \$100.00 per s/f which has skewed this average higher.

One reason for this unprecedented increase in market value appears to be a recent entry of institutional money being invested in the Southern New Hampshire and Seacoast industrial markets. Starting in 2019 institutional investors, including some purchases by REIT's, began buying industrial

properties which created upward pressure on pricing and in some cases out-bidding local private investors and users. In the past 12 months institutional buyers accounted for 31% of the total sales volume and public REIT's accounted for 7%, combining for 38% of sales volume. This is up from almost no activity prior to 2019.

The top institutional buyer's and REIT's include Northbridge, Sun Life Financial, The RMR Group, Katz NYC and Equity Industrial. The entry of these large, well-capitalized, sophisticated owners bodes well for the Southern New Hampshire and Seacoast industrial markets as they generally hold property for longer periods of time, maintain and reinvest capital into their properties in an effort to add value which ultimately returns capital back to their investors. These owners typically attract top quality national tenants that provide long term stability to the property which creates good quality jobs for residents in those markets. The investment of institutional capital and REIT, "Smart Money" flowing into the Southern New Hampshire and Seacoast industrial markets is an encouraging sign for New Hampshire as it reinforces the premise that New Hampshire is an attractive place to invest. The institutional and REIT investors have been sorely missing from this market and their entry gives me reason to believe the strength of these markets will continue thru 2022 and beyond. As a strong advocate for investing in the Southern New Hampshire and Seacoast industrial markets for most of my career, I say "welcome to New Hampshire".

Michael Harrington, CRE, CCIM, is principal of Harrington & Company, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540