



CELEBRATING
55 YEARS

nerej

2022 mid-year southern New Hampshire commercial real estate market - by Mike Harrington

July 01, 2022 - Northern New England



Mike Harrington

I'll start by summarizing the 2022 mid-year review which is not too dissimilar from 2021. I'm happy to report, the overall state of the southern New Hampshire commercial real estate market remains strong with a few exceptions. Sectors of the market that continue to outperform are industrial, multifamily and medical office. Laggards in the market continue to be non-grocery store anchored retail, and professional office.

The southern New Hampshire industrial market is experiencing high demand for high bay warehouse and flex manufacturing space. Tenants searching to rent space and users looking buy or build space continues to keep vacancy rates below their historic averages which creates upward pressure on NNN rents and building values. This trend is expected to continue through the rest of 2022 and into early 2023.

I recently attended a Counselors of Real Estate meeting at 160 Federal St., Boston. (Our first combination in-person/Zoom meeting since the pandemic. I'm hopeful this is a sign of a new normal versus just Zoom.) The focus of our guest speaker was an update on the Boston industrial sector. I'd like to compliment Chris Skeffington, EVP at CBRE who presented the information, he provided an excellent high-level view of the Boston industrial market, which I've summarized below.

1. Demand for Boston industrial space is at 5X inventory
2. Southern New Hampshire is viewed as a suburb of Boston
3. Southern New Hampshire does not have enough existing inventory to satisfy this demand
4. Vacancy rates are at historic lows
5. Rents are at historic highs
6. Proximity to the Boston market is key, as demand for direct to consumer shipping increases. The "windshield cost" is the economic driver to keeping distribution as close to the population base as possible.

New Hampshire continues to benefit from its proximity to Boston, which from a drive time perspective, is more accessible today than it has ever been due to the widening of the I-93 corridor. The four lane expansion of I-93, completed during the COVID-19 pandemic, traveling north/south from Manchester to the Massachusetts border was money well spent by the state of New Hampshire as it significantly reduces drive times making southern New Hampshire a viable alternative for distribution into the more dense population centers of Massachusetts.

As for the office market, we're beginning to see cracks in what was a fairly strong performing market during the pandemic. During the pandemic, tenants continued to pay rent even as space sat vacant and they didn't give back space as quickly as some had predicted. However, with the start of three

and five year lease terms starting to roll over, tenants are now adjusting to a post pandemic world. Which will most likely reduce their office footprint as the work from home (WFH), or some hybrid of WFH, becomes a reality for certain white collar workers.

The jury is still out on how much the WFH trend will affect the long term demand for office space but one thing seems certain, businesses are hesitant to force employees back to the office for fear of losing key employees. Recently, in an interview at the New York Times' Dealbook policy forum in Washington DC, Howard Shultz, CEO of Starbucks a proponent of returning to office has decided not to mandate a return to work. Recognizing that there is a generational difference in today's workforce and they have decided to offer flexible options for eligible corporate employees that include remote positions and hybrid positions.

We're seeing this trend play out locally as employers re-evaluate how best to run their business and manage/retain staff. Unfortunately for office landlords, this could take years to sort itself out leaving them with higher than average vacancy and a reduction in NOI for the foreseeable future. Some landlords are responding to the weakness in office demand by proactively taking steps to reduce their risk by converting some of their office space to residential. As an example, Brady Sullivan Properties received approval to convert eight floors of their 20-story class A office tower in downtown Manchester into 155 market-rate apartments. They've also been slowly converting some of their downtown office mill space to residential. In addition to the office conversions, lower grade C/D buildings are being razed in favor of developing much needed multifamily apartments. The weakness in the southern New Hampshire office market is predicted to continue throughout 2022 and well into 2023 as supply is outpacing demand. The shift in demographics couple with the WFH trend begs the question, have we reached peak office? I believe we have.

Mike Harrington, CRE, CCIM, is broker/principal with Harrington & Company, Manchester, N.H.

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