Southern New Hampshire industrial market continues to remain strong for owners and investors - by Michael Harrington

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If you're a commercial real estate broker, industrial real estate investor, wholesale distributor, contractor, manufacturer or anyone who actively seeks or tracks the industrial real estate market. You won't be surprised to learn that the state of the Southern New Hampshire industrial market continues to remain strong for owners and investors. As reported by CoStar Analytics, "rents for logistic space in Hillsborough County posted a gain of 9.2% in the past 12 months, outpacing 6.7% annual increases over the past 3 years. In the past 10 years the Hillsborough County submarket have risen by 48.7%. And, the Manchester metro area commands an average rent of $9.70 per s/f NNN."

An example of this rapid accent in asking rates was highlighted for me in a recent survey completed for a client searching for 50,000 s/f of high bay warehouse space. The survey included a listing that might be the high watermark for industrial warehouse space in Southern New Hampshire with an asking rate of $14.95 per s/f NNN. Only time will tell if this price is achieved but in this market, that's a big number.

As highlighted in my NEREJ article in the August 27 – September 2, 2021 edition, the Southern New Hampshire industrial market continues to be in the "Expansion Phase" of the market cycle, described as declining vacancy and new construction. Demand for industrial space continues to be strong and vacancy levels continue to remain below historical averages. As such, the lack of available inventory coupled with the unprecedented increase in lease rates over the last 10 years, has forced companies to shift their focus from leasing to purchasing industrial zoned land and building. As would be expected, this is putting upward pressure on industrial land values across Southern New Hampshire. Industrial zoned land sites with municipal water and sewer located within close proximity to I-93, I-95 or Rte. 101 are becoming harder to find and they're increasing in value. Not so long ago, industrial zoned land could be purchased in a range of $10/FAR (floor area ratio) to $15/FAR. Those values have more than doubled ranging from $25/FAR to $30/FAR today. (There are rumors in the market of developers tying up industrial property at a $50/FAR, this is another big number for this market and I'll be interested to see if any transactions close in this price range.)

Building however, creates another level of complexity for the industrial user as the process from start to finish can be lengthy, expensive and is froth with potential delays. As such, a team of consultants, engineers and contractors are recommended to be actively engaged at the beginning stages of the process to help industrial users navigate these choppy waters. We continue to hear of construction delays caused by supply chain issues which have yet to correct from the pandemic. This includes delays for critical building systems such as electrical transformers, electrical switchgear, chillers, HVAC systems and many other building components that are delaying the issuance of certificates of occupancy. Lead times for these items can be 12 month to 18 months and some instances manufactures won't commit to giving a timeframe for delivery. As one contractor told me, these are crazy times and believe me he is good at dealing with "crazy".

So what steps should a tenant take when vacancy rates are low and lease rates are increasing? I've recommend for years and continue to recommend these following steps:

1. Periodically review your lease.

2. Check if there are any options to renew. If so, be cognizant of the expiration date of the option.

3. Know your lease expiration date and if there are no options to renew be proactively searching the market well in advance.

In the past, we would advise surveying the market one year prior to lease expiration. Today, it would be prudent to start searching 18 to 24 months prior to the end of the lease. As mentioned earlier in this article, expect to pay more for rent. Lease rates have significantly increased over the past five years and they're not expected to decline in 2022. That being said, we are beginning to see some signs of lease rates leveling off. Previously leased warehouse space is starting to re-enter the market as companies consolidate operations to save costs and as excess inventory levels are reduced. Its quite possible 2023 could be the start of phase III in the market cycle, hypersupply – characterized by increasing vacancy, new construction. I'll end with that tease for the next article in six months.

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