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New Hampshire Seacoast market overview - by Caitlin Burke

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Introduction by Caitlin Burke, senior associate with excerpts from The Boulos Company's 2023 New Hampshire Market Outlook

In 2022, the New Hampshire Seacoast industrial market remained strong, with vacancy and pricing rates largely unchanged from the previous year. Demand in the industrial sector stayed robust, with vacancy rates hovering around 2%, though asking lease rates stabilized after a notable jump from 2020 to 2021. Meanwhile, the office market vacancy rate slightly increased and asking lease rates rose. As COVID-era leases approach their expiration, we anticipate a gradual shift in the office market's post-COVID landscape in the coming years. The following is a recap of each market along with what to expect in 2023.

The Seacoast office vacancy rate increased from 10.9% in 2021 to 14.8% in 2022. For context, the pre-pandemic vacancy rate was 7.3% in 2019. Although this is roughly a 100% increase, it's not nearly as bad as many might have predicted. Furthermore, this year's increase over last year can be misleading. 200 Domain Dr. in Stratham, which is the corporate headquarters for Timberland, has 246,000 s/f available for lease. If this one building was removed from the vacancy totals the Seacoast office market effectively only increased from 10.9% to 12.1%.

Office Trends to Watch in 2023

- **High Asking Lease Rates:** This year's average asking lease rate increased from \$14.47 to \$15.87 per s/f, NNN. This seems counter-intuitive given the low demand and increased vacancy. The increase, however, can be attributed to higher quality available space and the trend of landlords keeping lease rates high to offset the increased construction costs associated with renovating office space.
- **"Move-In Ready" Space in Demand:** High construction prices will continue to be an issue. Available office space requiring substantial tenant improvements will likely be priced out of the market. Tenants will focus on recently renovated spaces that require limited fit-up and are "move-in ready." Tenants will also have to make some concessions when designing their ideal office layout to lower the cost.
- **Large Vacancy:** As already discussed, many large companies are not occupying all their space. As their lease terms end, we may see large amounts of space hit the market for lease, similar to the Timberland example that was previously mentioned. We may also see more sublease space become available from companies that have determined they do not need their space, but who still have long term lease commitments.
- **Landlord Concessions:** Because of the high construction costs, landlords will have a tough time discounting the lease rates. For this reason, landlords will have to offer other concessions such as free rent, reduced rent during the first lease year, moving assistance, waived security deposit, or free amenities like gym access or free parking in urban environments.

- **Tenant Demands:** Tenants that are looking to move in 2023 will demand more from their buildings. Class A office buildings that offer amenities like on-site gyms, cafés, common space, and close access to day-care will be in consideration. This will be critical as companies will look to offer a good balance between remote work and a more enjoyable workplace to retain employees and attract new ones. Conversely, older buildings located in less desirable areas will have challenges attracting tenants.

The Seacoast industrial vacancy rate hit 2.1% at year-end 2022, just a slight decrease from the 2021 vacancy rate of 2.3%. Currently, there are only two industrial options of 50,000 s/f or greater for lease in the Seacoast. Of these two options, both pose challenges based on their location and configuration. Interestingly, if we back out the largest vacancy in the market located at 121 Technology Dr. in Durham which is 269,965 s/f, we are left with a vacancy rate of 0.6%. This demonstrates the Seacoast industrial market has reached subcritical mass.

Industrial Market Trends

- **High Ceiling Heights:** Industrial tenants continue to demand high bay space with a minimum clear height of 28 ft. The high clear heights provide businesses the ability to palletize more product and use advanced picking technologies to maximize the space and lower costs.
- **Energy Efficient Upgrades:** Updated loading docks with tight seals and building efficiencies that lower the occupancy cost such as LED lighting and solar power, have been part of the lease negotiation discussions in 2022. These features are especially desirable in light of the recent increases in the cost of electricity and gas.
- **Longer Lead Times:** Another challenging trend for developers and industrial users looking to expand is the long lead times for many of the integral elements of industrial buildings such as HVAC, roofing products, and electrical components. This situation is worsened by labor shortages in the sub-contractor market. To illustrate this point, it's commonplace for electrical transformers, an integral component to a manufacturing facility for 3 phase power, to take 5-7 months to be delivered.

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