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Will added inventory meet user needs? - by Kristie Russell

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At the halfway mark of 2023, the commercial real estate market is very active, with companies renewing, expanding, and others entering the market. Deals are occurring in the office market, with many companies renewing leases and some companies expanding in the market. There is, however, a notable number of companies downsizing. The overall market movement has led to an office market that was relatively flat, year-over-year. The industrial market, however, had over 300,000 s/f of new construction completed this quarter, and the vacancy rate still fell. This tight industrial market led to an asking rate spike.

The New Hampshire office market is relatively steady now when compared to the halfway point in 2022, with only a 0.4% increase in the overall vacancy rate and finishing the second quarter at 11.1%. The market has seen many companies downsize over the last six months, leading to the vacancy rate rising by 1.1%.

Most submarkets have seen tenants consolidating their holdings which is freeing up space. This is particularly true in the class A sector, causing a 2.9% increase in the vacancy rate. As the rate continued to climb over the last five quarters, the direct asking rate in the class A category surprisingly increased by 1.4%. But it may be stabilizing as rents have since dropped by 3.1% ($0.79 per s/f) year-over-year, ending the quarter at $24.31, modified gross.

Even with the rents in the class A sector falling, the overall direct asking rate (again, surprisingly) increased year-over-year. The statewide average climbed by 2.2% ($0.44 per s/f), with the largest change in the Dover submarket. Space hitting the submarket in the class B and C categories, like the 99,675 s/f building on Education Way in Dover, led to the 23% jump in the overall direct asking rate.

Most of the top office transactions this quarter were companies renewing or relocating within the same submarket. In Portsmouth, FedPoint, a federal benefits administrator, signed a seven-year renewal for 53,660 s/f of class A space at 100 Arboretum Dr. in Newington. ADP, an international online payroll and HR solutions management company, recently consolidated its footprint in Salem, moving from a 113,388 s/f class A building at 11 Northeastern Blvd. to 27,000 s/f of class B space at 4 Northeastern Blvd. In Manchester, Lamont, Hanley & Associates will relocate from its longtime 16,555 s/f home at 1138 Elm St. to 17,250 s/f of millyard office space at 186 Granite St.

Switching to the industrial, the market continued to tighten this quarter. Even with the addition of 369,000 s/f of new construction hitting the market, the overall vacancy rate fell by 0.3% year-over-year, ending the second quarter at 2.9%.

Most of the new construction was in the warehouse/distribution category. Compared to last year, the sector’s vacancy rate only rose by 0.8%. Some of the construction was for owner-users, which meant the vacancy never hit the market, but in the Salem submarket, the recently completed 155,000 s/f building on Industrial Way created a spike in the vacancy rate. With the rent for this space being notably higher, due to the cost of construction, direct rental rates for warehouse space in the Salem submarket jumped by 41.4% ($4.92 per s/f) year-over-year. Although not surprising to see this for new construction, it did have an impact on the statewide average rental rate.

The overall direct industrial asking rate has continued to climb over the last seven quarters, with an average quarterly increase of 24.2% on a year-over-year comparison. At the end of the second quarter, the direct rent rate was $12.38 NNN, a 26.6% ($2.60 per s/f) bump year-over-year. The largest increases were in the flex and manufacturing categories in the Nashua submarket and the warehouse/distribution category in the Salem submarket.

There continues to be new industrial companies entering the market, while others look to expand throughout the state. One of the most notable deals was at the longtime vacant space at 121 Technology Dr. in Durham. So far this year, the building is the new home to Brazonics Inc., a subsidiary of Raytheon Technologies, and DACHSER Logistics, an international logistics service provider. The two tenants will occupy approximately 170,000 s/f of the building, roughly 34%. This is in addition to a short-term lease to Sig Sauer that was signed for 138,000 s/f at the end of last year.

Other notable industrial deals included two warehouse/distribution sales. The former Central Paper building at 350 Gay St.in Manchester was purchased for $11.0 million ($124 per s/f) in April by RJ Kelly. At the time of the sale, part of the 88,458 s/f building was occupied, but now the entire building is available for lease. The other investment sale was 109-113 Hillside Ave. in Londonderry. This fully leased, 85,568 s/f building, sold for $4.9 million ($57 per s/f) in May to an investor.

With the industrial vacancy rate remaining below 3%, many companies are still finding it difficult to find space. There is over a million square feet in the pipeline for industrial projects coming over the next couple of years in New Hampshire, most of which focus on high bay users with 50,000 to 100,000 s/f needs. The question is, will the added inventory meet user needs, particularly for companies looking for small blocks of space.

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