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The southern New Hampshire industrial market showing signs of late cycle activity - by Michael Harrington

August 25, 2023 - Spotlights



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As one might expect, the Southern New Hampshire Industrial Market is not immune from the effects of national macro-economic conditions. Increases in interest rates, low unemployment and increasing construction costs have a dampening effect on growth and 2023 might be the pivot point from which our resilient industrial market starts to level off and possibly turn downward. In last year's article in the New England Real Estate Journal, August 26th, 2022, I highlighted the rapid increase in industrial rents over the past ten years rising from a (broad) range of \$5.50 to \$7.00 per s/f triple net (NNN) to a range of \$10.00 to \$12.50 per s/f NNN, today. With some newly constructed industrial space being offered at \$14.50 per s/f NNN. This increase in rates was spurred by a tremendous demand for warehouse space, primarily driven by e-commerce. This demand decreased vacancy rates to well below historic averages. And, to make matters worse for tenants and end users, there was little to no new construction of industrial property in the pipeline. This created a market imbalance that was very favorable for owners and investors of industrial property for the past four to five years.

The pivot that appears to be occurring in 2023 can be characterized by increasing vacancy and new construction, which are typical characteristics of a phase III market cycle or late market cycle. Which is what I believe is playing-out in today's Southern New Hampshire industrial market. In a recent survey using CoStar Analytics, construction starts of industrial buildings in Southern New Hampshire significantly increased in 2022 and have continued into 2023 reaching a high point in the second quarter of 2023 at 1.6 million s/f under construction, much of which is not committed space. In a small market like Southern New Hampshire, this significantly increases the amount of available space coming onto the market and begins to stabilize asking rents. Based on past experience, this will most likely cause a pause in the increase in NNN asking rents somewhere around current levels. This assumes demand for industrial space continues to be resilient and absorption of newly constructed space is predicted to take months not several years.

A couple of notable new projects currently under construction include, Granite Woods Commerce Center located at 47 Hackett Hill Rd., (Hooksett) this is a 500,000 s/f, 36' clear modern industrial facility with 67 loading docks and great access off I-93 at Exit 11 being developed by Port One. 48 Friars Dr., (Hudson) is a 504,000 s/f, 40' clear modern industrial facility with 104 loading docks, the building is 50% committed and is being developed by GFI Partners. John Flatley Company is in the process of building out Merrimack Commerce Park located at 703 Daniel Webster Hwy. (Merrimack), this is a 150-acre site being offered to users in need of high-bay distribution warehouse space ranging from 50,000 s/f to 1.12 million s/f. Lastly, 50 Robert Milligan Hwy., (Merrimack) is a 324,000 s/f, 36' clear modern industrial building with 53 loading docks and easy access off Rte. 3, FE Everett Tpke. These plus many other smaller scale projects in the pipeline, account for more industrial space being delivered to the market than this market has experienced in the past 10 years, which anecdotally would indicate a peak.

What does this portend for the future of the Southern New Hampshire industrial market? We should start to see market conditions turning in favor of tenants thus creating a more balanced market. This is good news for industrial users in search of new space as they will have more properties to choose

from including newly built high quality, high-bay industrial space from which to trade up into. And, we expect to see some modest concessions from landlords as they get aggressive to capture high value tenants prior to more competition entering the market.

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