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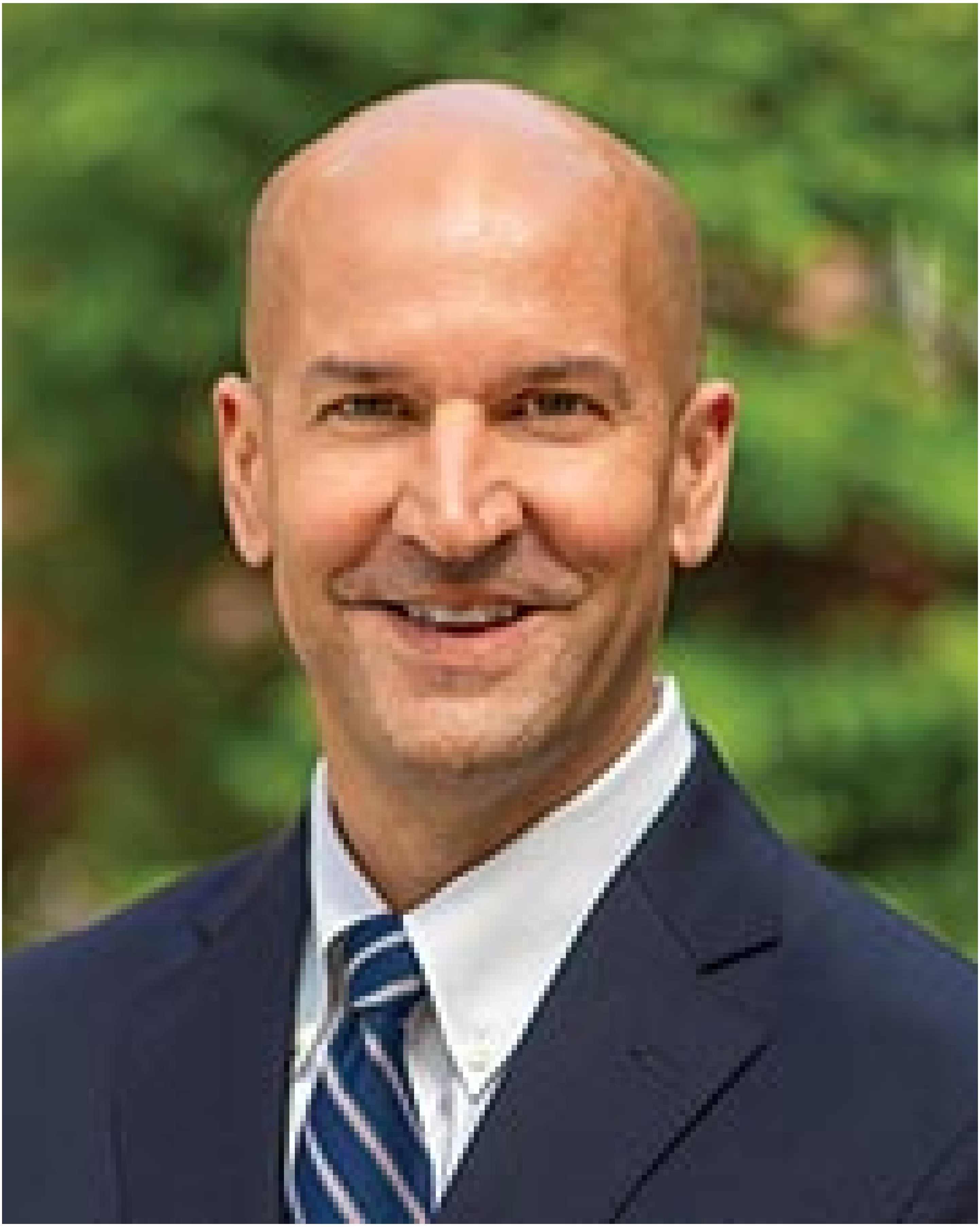
New Hampshire office and industrial overview - by Kent White, Roger Dieker, Christian Stallkamp and Chris Healy

January 26, 2024 - Spotlights



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Based on information from The Boulos Company's 2024 New Hampshire Market Outlook.

New Hampshire Office Market

In 2023, the New Hampshire I-93/Rte. 3 office market remained stable but saw a slight increase in vacancy reporting at 8.4% and average asking lease rates at $15.36 per s/f NNN. As pre-COVID leases expired, some tenants are downsizing their office spaces, combining remote work with occasional in-office training.

Many tenants whose leases expired in 2021 and 2022 initially reduced their office space by 80-90% due to remote work trends. However they returned in 2023 seeking 10-20% more space, ultimately stabilizing at 30-40% of their previous size. In 2024, tenants with expiring leases may make similar downsizing mistakes.

Companies renewing leases in 2024 and 2025 will continue to explore downsizing options while maintaining an office presence for employee interaction and collaboration. Buildings with smaller floor plates that offer amenities like covered parking, breakout rooms, food options and workout spaces are in demand.

Over on the Seacoast, the office market underwent changes in 2023. Smaller offices (2,500 to 5,000 s/f) were in higher demand than larger ones (25,000 s/f+). Larger office rents softened, while smaller offices remained stable, especially in class A buildings which offered amenities.

The Seacoast office vacancy rate rose to 19.8% in 2023 from 10.9% in 2021 and 14.8% in 2022, with average rent decreasing to $14.93 per s/f NNN in 2023 from $15.87 per s/f NNN in 2022. Companies are reevaluating revenue expectations and prioritizing efficiency and cost-cutting. Liberty Mutual in Dover and Bottomline Technologies in Portsmouth contributed significant available office space which impacted the vacancy rate considerably.

Landlords with larger vacancies may provide concessions or look to reposition buildings into residential. Trends include reduced work-from-home days, Mass. companies relocating due to advantages in New Hampshire, office-to-residential conversions, and continued demand for "move-in-ready" spaces to avoid high construction costs.

New Hampshire Industrial Market

In 2023, the New Hampshire I-93/Rte. 3 industrial market experienced another strong year with sustained demand, increased lease rates, low supply, and limited speculative construction. Collectively, these conditions ultimately resulted in a market with an overall vacancy rate of 4.8% and average asking lease rates of $11.25 per s/f NNN.

On the Seacoast, the industrial sector has been the dominant force over the past 3-5 years. Much like the I-93/Rte. 3 market, this has been due to high demand, limited inventory, and rising lease rates. However, the Seacoast began to see a modest decline in demand during the third quarter of 2023, potentially signaling a stabilization or softening of the Seacoast industrial market in 2024. The Seacoast industrial vacancy rate increased slightly to 2.9% with average asking lease rates of $10.95 per s/f NNN.

For businesses looking at new sites/relocation, New Hampshire has a number of attractive qualities. In addition to its routine high scores for quality of life, proximity to major metropolitan areas, travel/accessibility, higher education, recreation, and healthcare, it also offers no state income or sales taxes.

Given New Hampshire's proximity to Boston, many businesses closer to the city continue to experience a sustained run-up in occupancy costs. New Hampshire's lease rates are often considerably more attractive than those south of the New Hampshire/Massachusetts state line. Using Massachusetts as an example, if a Mass.-based company relocates to New Hampshire and that company is already employing New Hampshire. residents, those folks would enjoy a "pay raise" by way of no longer having a state income tax. Additionally, reverse commuting, hybrid work schedules, and improved residential affordability relative to metro-Boston may further benefit the subject company and its employees.

Regarding sales, industrial assets remain coveted, and pricing has held strong. In many instances, users have been able to outduel investors when competing to purchase property, and this shift can largely be attributed to the rapid climb of interest rates. While a user will generally be willing to pay more than an investor, the past few years offered historically low interest rates, which in turn afforded investors far more buying power. The rise in interest rates has also been a factor in decreased sale transaction volume relative to the past few years. All of this being said, identifying industrial real estate to acquire in New Hampshire remains challenging with many current owners reluctant to sell in the current climate.

As we jump into 2024, we anticipate the industrial market to sustain its strong fundamentals. Rents are likely to remain relatively steady, and vacancy rates will remain low. In this evolving landscape, clients should assess their real estate needs, conduct market research, and consider local conditions. Leveraging local expertise, relationships with banks, landlords, and commercial real estate brokers is crucial for optimal outcomes in New Hampshire's diverse markets.

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