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No downturn predicted for the Southern New Hampshire market - by Michael Harrington

February 23, 2024 - Spotlights



Michael Harrington

The New Hampshire industrial market remains resilient despite the recent increase in vacancy rates. As I pointed out in my August 2023 NEREJ article, New Hampshire has not been immune from the effects of national macro-economic conditions. Increases in interest rates, low unemployment and increasing construction costs continue to have a dampening effect on growth. That being said, I'm now re-thinking my prediction from last year which postulated that 2023 was possibly a pivot point from which our resilient industrial market might level off and possibly turn downward in 2024. Based on my current experience working with tenants and buyers in the market coupled with some recent survey data, there is little evidence, that demand for industrial space is weakening or that the recent deliveries of new construction will significantly weaken the New Hampshire industrial market in 2024.

In a recent survey of the Southern New Hampshire and Seacoast industrial markets, I surveyed approximately 72.1 million s/f of industrial/flex properties that were 20,000 s/f or larger, using CoStar analytics. Results showed that overall vacancy rates have increased to 5.6%, only slightly higher than the prior year and average asking market rents increased to \$11.50 per s/f NNN which is still trending up from the prior year of \$11.03 per s/f NNN. But, at a slower rate of growth from previous years.

As such, the pivot that appeared to be occurring in 2023 might only have been a "head-fake" and will not result in a downturn for 2024. Only time will tell, but the New Hampshire industrial market continues to exhibit signs of being in phase II of the market cycle which is characterized by increasing market rates (all be it at a slower pace), decreasing vacancy and continued new construction.

One red flag from last year that signaled a potential downturn occurred when Amazon, in March of 2023, stepped away from their commitment at the former Green Meadow Golf Course in Hudson. Fortunately, Target Corp. stepped in and purchased the 375 acre approved industrial land for \$121.8 million with the intent to build a 1.4 million s/f distribution center, further demonstrating the strength of New Hampshire's industrial market.

This might be no surprise but the tightest market continues to be Portsmouth, which is the focus of this paragraph. There is an old saying in real estate that "all real estate is local", this is no-more evident than the industrial real estate market in Portsmouth, N.H. The Portsmouth industrial market continues to be the strongest in the region and did not experience the "head-fake" that occurred in the broader market last year. If you're a tenant or a user looking to buy or lease industrial space in Portsmouth, good luck. Currently, there are no properties for sale, only a few industrial flex buildings for lease and no new speculative construction projects with the exception of one warehouse distribution building being built on Banfield Rd. Vacancy rates are the lowest in the region at 2.2% (up from last year's historic low of 0.9% which really means 100% occupancy). Asking rates that average \$13.79 per s/f NNN (\$14 per s/f NNN) and are predicted to trend higher. Even more remarkable is the future outlook for Portsmouth. Trend data is indicating that thru 2028 asking rents are predicted to increase to a range of \$17 to \$18 per s/f NNN and vacancy is not expected to

exceed 4% at any time during the next four years, according to analytic data provided by CoStar. This is good news for owners and landlords but a brutal reality for tenants or users looking to enter or expand operations in this micro-market.

In summary, despite the slight up-tick in vacancy and slower market rent growth that occurred in 2023, the New Hampshire industrial market in 2024 is predicted to show strength. The perceived softness from 2023 did not signal a reversal as previously thought, as the momentum of higher market rents, higher sale prices and lower vacancy continues its trend into 2024. As has been the case since before the pandemic, the New Hampshire industrial market will continue to favor landlords and sellers, thus making it challenging for buyers and tenants to negotiate favorable terms. If you're a tenant or a user, the best strategy to combat this environment is to search the market early (12 to 18 months before lease expiration), seek off-market opportunities, expand your geographic search area and (longer term) work with town/city planners to advocate for the re-zoning of land for industrial uses.

Michael Harrington, CRE, CCIM, RPA, principal of Harrington & Company, Manchester, N.H.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540