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Southern New Hampshire industrial market - by Bob Rohrer

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When you consider the 2024 industrial real estate market on a national level, you will find mixed signals, but the overall appearance is that things are heading in a reasonable direction. According to Colliers' National Industrial Research team, the continued inertia in the manufacturing sector's re-shoring and nearshoring efforts, persistent efforts to improve last mile logistics, and sustained interest from tech-driven uses are just some of the positive forces that will propel the industrial real estate market in 2024. But, with the high cost of construction, high cost of financing (relative to the past ten years), higher rents, and the amount of new product that entered the US over the last two years, market indicators have begun to shift. These conflicting forces point toward a normalizing of the market to levels witnessed prior to the pandemic years of 2017 to 2019.

Following several years of white-hot demand, record new supply significantly outstripped demand in 2024 as developers added an estimated 607 million s/f of new space nationally, far outpacing net absorption of 231 million s/f. As a result, vacancy rates increased during each quarter of the year, culminating in the highest rate, 5.5%, since 2016. The balance between supply and demand looks, therefore, to be reaching a new equilibrium in 2024 as vacancy stabilizes and the market prepares for its next growth cycle. Describing 2023 in a negative light is a bit misleading when it is compared to the historic run of 2021 to 2022. It obscures the fact that in 2024, the market is growing, but at a more measured rate. For a more in-depth look, please refer to Colliers' National Q4 2023 Industrial report.

A national perspective is all well and good, but New Hampshire tends to beat to its own drum. Interestingly, New Hampshire's industrial commercial real estate market trends appear to be veering closer than normal to national trends for 2024. While the state may have had a comparatively stronger 2023 than the broader market, 2024 is likely to be a year of incremental (or measured), but not outrageous growth.

New Hampshire is experiencing a significant amount of industrial real estate construction post-COVID. This development has added more than 2.3 million s/f to the New Hampshire base when compared to the end of 2019. Quite a departure from the much slower growth that existed for at least the decade preceding COVID. Absorption, from both an owner and tenant perspective, outpaced this high level of development. Unsurprisingly, such demand and tightening supply led to higher lease rates, with some markets and industrial sectors seeing more than a 100% increase when compared to rates seen at the end of 2019. During the same period, construction costs and financing costs sharply increased. Owners and tenants shrugged these increases off for the most part and continued to build and lease. Vacancy rates in the New Hampshire industrial sector finished 2023 at 3.6%.

Evidence of the strength of the market can be seen by the amount of money investors poured into New Hampshire's industrial real estate. RJ Kelly, a Massachusetts-based firm, for instance, has added more than 30 properties to its portfolio over the past three years. Additionally, companies such as Life is Good, Lonza / Vertex Pharmaceuticals, Inc, and Stonyfield have or plan to increase their New Hampshire footprints. There are also new entries to the state, such as New Balance and

KJ Can, that are spending significantly on New Hampshire industrial space. This clearly paints an encouraging picture of the industrial real estate market.

The pendulum, however, eventually had to start swinging in the other direction. For New Hampshire industrial real estate, that clearly became evident just before, or at the start of, 2024. Resistance to ever-increasing lease rates and spiking building costs came into focus as spec construction space no longer immediately filled up, and many construction projects (user and spec) were put on hold. For instance, along the Rte. 3/FE Everett Tpke. corridor, from Nashua to just north of Manchester, there is approximately 1.7 million s/f under construction or recently built for lease. Plus, an additional 1.8 million s/f of space proposed for lease that has been put on hold until an anchor tenant can be secured. This is significant when you consider that the overall vacancy rate at the end of 2022 was 2.7%. That is not to say we are experiencing a stalled market. There are deals in the works and construction companies, by and large, have full schedules for the near future. It appears that the market is catching its breath from an incredible growth spurt. We are aware of several industrial deals that are coming together and anticipate an overall positive 2024 for the industrial real estate market. We anticipate tenants and owner-users being a bit more circumspect, making conservative real estate decisions, which will lead to a stable, albeit quieter, market in 2024.

For a more in-depth look into NH's industrial CRE, please visit colliersnh.com to read our latest NH Market Insight publication.

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