nerej CELEBRATING 55 YEARS EST 1963

# CRE market continues to navigate and adjust - by Kristie Russell

May 24, 2024 - Spotlights

Kristie Russell

The New Hampshire commercial real estate landscape has experienced notable fluctuations in recent years. Within the office sector, there has been a consistent uptick in available space since 2020, attributed to a wave of companies downsizing or closing their New Hampshire operations. However, vacancy rates seem to be stabilizing, with little change in the first quarter, as some companies expand and vacant offices are converted into multifamily. Simultaneously, the industrial real estate market, which has maintained historically low vacancy rates for the past few years, is undergoing a transition towards a more balanced state. While demand from industrial tenants remains robust, the emergence of new spec construction projects is leading to larger vacancies, particularly within the warehouse/distribution category.

Over the last five years, many companies have closed or downsized offices, leading to a 5.8% increase in the office vacancy rate, which reached 13.3% by the end of the first quarter of 2024. Notably, the Portsmouth submarket, traditionally a satellite location for national companies, saw its vacancy rate surge by 11.3% since early 2020, ending the first quarter at 14.4%. Despite these challenges, there’s optimism that the New Hampshire market may stabilize, with a slight 0.3% drop from the previous quarter. This trend may continue if there are no more significant office closures and pending multifamily conversions move forward.

With the vacancy rate steadily rising, rents in the office market have, surprisingly, also seen an upward trajectory over the last five years. In the last year alone, the direct asking rate surged by 4.4% ($0.92 per s/f), culminating to $21.56 modified gross at the end of the first quarter. Overall rental rates are anticipated to steadily increase, driven by demand for specific types and sizes of space, alongside the withdrawal of some spaces from the market due to multifamily conversion.

Although overall rents are climbing, class A asking rents are falling. It seems evident that some landlords are adjusting asking rates in response to prolonged or anticipated vacancies, leading to asking rates falling by 1.8%. This could potentially influence tenant behavior, prompting a migration towards premium space. Examples of this include Shaheen & Gordon, P.A., which will expand from its Bridge St. location to 1155 Elm St. in downtown Manchester. Additionally, ECCO, a national shoe brand, is relocating its office operations from Delta Dr. in Londonderry to 1 Northeastern Blvd. in Salem. Multiple smaller class A deals around Portsmouth’s Pease International Tradeport occurred over the first quarter, including Andover Health’s leasing of 9,000 s/f, Cummings Lamont & McNamme leasing 7,283 s/f, and McFarland Johnson leasing 5,900 s/f.

In the industrial real estate market, signs of returning to a healthier market are appearing after significant shifts in vacancy and rental rates over recent years. Despite historically low vacancy rates over the past three years, the market seems to be leveling off as company consolidation and new spec construction impact the market. Still, rents continue to climb, albeit at a slower pace in recent quarters.

In the first quarter of 2024, the statewide industrial vacancy rate rose by 1.5%, reaching 4.3%, more in line with pre-COVID levels and indicative of a market balancing out. Most of this change was due to shifts in the Manchester and Nashua submarkets. The Manchester submarket, which saw a historic low of below 1% in 2021 and 2022, rose to 3% in the first quarter of 2024. The Nashua submarket also experienced a rise in vacancy, climbing by 3.4% year-over-year, ending the first quarter at 5.5%. The increase in both areas can be attributed to companies leaving space after consolidating and others expanding into newly built facilities in different submarkets. It is also due to spec buildings being completed without leases in place. For example, 50 Robert Milligan Park in Merrimack, a 324,000 s/f warehouse building, was finished and delivered vacant.

Rental rates for high-demand industrial spaces have climbed significantly over the past five years, with average growth above 18%. Recently, the market experienced its first single-digit percentage increase since early 2021, rising by 6.6% year-over-year in the first quarter. In the warehouse/distribution category, the rate has more than doubled since 2020. However, there are signs that rents may be plateauing, after experiencing a slowdown in rental rate growth in recent quarters.

Even with the industrial vacancy rate rising slightly, many leases were still executed. Despite having one of the highest vacancy rates in the state, the Salem submarket experienced significant positive absorption during the first quarter of 2024. This was largely influenced by Sheergard Composite Solutions, a defense and space manufacturer, leasing 56,800 s/f of first-generation space at 6 Industrial Way in Salem.

The former Ray the Movers building at 201 Allard Dr. in Manchester is now fully occupied, after Sanford Temperature Control signed a long-term lease for the entire 35,740 s/f high bay warehouse building. The size and location, with its proximity to the highway, made it a perfect fit as Sanford reached capacity in its former location in Milford.

As New Hampshire’s commercial real estate market continues to navigate and adjust through economic and social shifts, it remains evident that resilience and adaptability are key characteristics defining the future of the market. From the office sector’s response to rising vacancies, to the industrial market’s leveling after several years of growth, the landscape reflects an ongoing process of adjustment and evolution. With each transaction and occupancy change, the market demonstrates its ability to respond dynamically to challenges and opportunities, underscoring its enduring vitality and potential for future growth.

Kristie Russell is a research manager | New Hampshire and Maine, with Colliers, Manchester, NH.