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**Office and industrial markets  
transformations - by Kristie Russell**

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The New Hampshire office and industrial markets are experiencing significant shifts as we move past the halfway point of 2024. Despite the rising vacancy rates in both markets, some tenants still struggle to find the right space due to amenities, location, or size constraints.

### Office Market

Although the overall vacancy rate has been increasing over the last two years, some office users still find it challenging to locate suitable space, especially in specific submarkets. Tenants looking for small space and those in certain class A markets are particularly impacted. Residential conversions have also played a role, lowering the vacancy rate and contributing to higher asking rent.

In the past year, the office vacancy rate rose by 2.3%, but the rate of increase has slowed over the last three quarters. A significant factor in this spike was the closure of Liberty Mutual's 575,800 s/f operation in Dover at the end of 2023. Excluding this event, the average quarter-to-quarter change in vacancy has been a minimal increase of 0.1% over the last year.

Despite the overall increase in vacancy, some submarkets have seen rates fall over the last year. The rate in the Manchester submarket dropped by 1.9%, due in part to the stable class A category, which had no change. This stability is due to the conversion of vacant office space at 1000 Elm St. into apartments. In addition, the area welcomed some new tenants and others expanded, like Shaheen & Gordon, which will relocate and expand into 11,000 s/f at 1155 Elm St. by the end of the summer.

Rental rates have varied by submarket. The statewide direct asking rent increased by 4.4% (\$0.92 per s/f) over the past year. Notably, Manchester's reduced vacancy rate contributed to a 7.6% (\$1.50 per s/f) rise in its direct asking rate. Salem experienced a significant 13% (\$2.96 per s/f) bump in its direct rent, largely due to the newly constructed office building at Tuscan Village. Part of this new building was leased upon completion, with AutoStore opening its North American headquarters in 40,000 s/f. However, the additional 13,000 s/f hit the market with above-average asking rent.

### Industrial Market

The industrial market is also undergoing substantial changes, marked by rising vacancy rates and stabilizing rental rates. Over the last year, the vacancy rate increased by 2.8%, ending the second quarter at 5.9%. Contributing factors include location issues, functional obsolescence, and high asking rents, as well as new speculative construction.

The Nashua submarket was notably affected by new construction, with its vacancy rate rising by 6.8% over the last year to 9.4%. Key developments impacting the rate include the 323,750 s/f project at 50 Robert Milligan Pkwy. in Merrimack, which remains vacant, and the 504,000 s/f warehouse at 48 Friars Dr. in Hudson, where Life is Good leased approximately 75% of the space. However, about 126,000 s/f of this warehouse remains available, with an additional 126,000 s/f set to become available in the future.

Industrial rents have generally trended upward in recent years, but over the past year, the overall asking rate fell by 1% (\$0.12 per s/f), ending the second quarter at \$11.98 NNN. Direct asking rates remained relatively stable with a modest 0.4% (\$0.04 per s/f) increase, while sublease rates dropped significantly by 22.8% (\$2.11 per s/f) year-over-year.

Sublessors of large blocks of space have started to drop rents as overall demand has slowed. For example, rent for the 200,000 s/f former Alene Candle space in Amherst dropped by 30.8% (\$3.00 per s/f) at the beginning of the year, which softened the submarket's overall rent, falling by 3.2% year-over-year. Also, it is the only warehouse space for sublease in the submarket swaying the entire category.

With another 6.5 million s/f proposed or under construction across New Hampshire, the market could continue to be impacted. However, there is a slowdown in speculative projects being built without tenants in place. Some projects, like 7 Crow's Nest Circle in Merrimack, are being built in phases. 100,000 s/f of the 359,000 s/f development is already under construction, with the owner taking part of the building. During the second quarter, Gregstrom Corp., a plastic contract manufacturing company, leased 54,000 s/f in the new facility.

## Conclusion

The New Hampshire office and industrial markets are navigating notable transformations at the halfway point in 2024. In the office sector, while the overall vacancy rate rose, specific submarkets like Manchester show resilience with decreasing vacancies and stabilizing conditions. Residential conversions help maintain market balance despite remote work trends and shifting tenant preferences. The industrial category is marked by rising vacancy rates with rents leveling out, driven by new speculative construction, particularly in submarkets like Nashua. Demand remains strong for modern, well-located industrial facilities, with phased developments and cautious construction signaling a measured approach. Both markets can remain adaptive and resilient by closely monitoring trends and evolving tenant needs, positioning them well for the future.

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