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## **The southern N.H. industrial market - Potential start of a new market cycle in 2025 - by Michael Harrington**

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Michael Harrington

I'm reflecting back on my NEREJ article of August 2023 to provide an update on the Southern New Hampshire industrial market compared to a year ago. As speculated in last year's article, the anticipated pivot from low vacancy and rising rates has occurred and the industrial market is now experiencing, what I believe to be, late market cycle activity. (This is categorized as high vacancy rates and lower asking rates.) Unfortunately, the industrial market in Southern New Hampshire did not escape the effects of national macro-economic conditions that were brought upon by higher interest rates and a slowing economy. The rapid increase in interest rates, low unemployment and increasing construction cost continue to persist into the mid-year of 2024 and this has dampened demand for industrial space. Additionally, new speculative construction that was delivered to the market in late 2023 and early 2024 have increased the amount of available high bay distribution space which is putting negative pressure on asking rates. That being said, I don't believe this will result in a retracement of asking rates back to pre-pandemic levels.

In last year's article I highlighted the rapid increase in industrial rental rates to a range of \$10-\$12.50 per s/f NNN for existing warehouse distribution space. (And, newly constructed industrial space being offered at \$16.50-\$18.50 per s/f NNN.) These rate increases were spurred by a tremendous demand for warehouse space, primarily driven by e-commerce and supply disruptions. That demand appears to be normalizing and the absorption of new space delivered to the market has slowed and asking rents are adjusting to the new supply of space. Fast forward to August of 2024, asking rates appear to be leveling out in the range of \$10-\$11.45 per s/f NNN, on average. This is welcome news for tenants and end users as the supply of newly constructed space provides an opportunity to lease under more favorable terms and conditions.

As referenced above, the leveling off of asking rents, increasing vacancy and the delivery of new speculative construction is characteristic of a late market cycle. In a recent survey I conducted, using CoStar Analytics, vacancy increased to 5.9%, absorption of industrial space was a negative (196,000 s/f), asking rates have leveled off, CAP rates have increased from 8.12% in 2023 to 8.36% in 2024 and new construction of speculative industrial space has stopped. In a small market like Southern New Hampshire, the amount of new space delivered to the market in 2023 and early 2024 significantly increased the amount of available space causing a pause to the increase of triple net (NNN) asking rents.

Smartly, developers who saw the downturn coming made the decision to pivot away from construction while the market normalized. A couple of notable new projects that have stalled due to changing market conditions include, Granite Woods Commerce Center located at 47 Hackett Hill Rd., (Hooksett) this is a 500,000 s/f, 36 ft. clear modern industrial facility off I-93 at Exit 11. The developer has cleared the site but construction has not begun. The 173,000 s/f high-bay industrial facility at 60 Pettengill Rd. that was expected to break ground in Q4 2023, has not yet broken ground. And lastly, 50 Robert Milligan Hwy., (Merrimack) is a 324,000 s/f, 36 ft. clear modern industrial building with 53 loading docks and easy access off Rte. 3, FE Everett Tpke. has been vacant since its construction in 2023. These plus many other smaller scale projects are aggressively pursuing tenants or being placed on the shelf until market conditions change.

Now as I look back on late 2022 thru 2023, this period of time may have marked the “peak” of this market cycle for Southern New Hampshire industrial properties.

“So, what’s in store for next year?” We should continue to see market conditions favoring tenants as rates bottom, thus creating a more balanced market in 2025. There will be little to no new construction and there will continue to be demand from users looking to purchase existing industrial properties and absorption should turn positive. Only time will tell if 2025 is the start of a new market cycle. I’ll be sure to write about it in next year’s market update, stay tuned.

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

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