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New Hampshire industrial and office markets - by Kristie Russell

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At the end of 2024, the New Hampshire industrial and office markets are showing signs of stabilization. While the industrial sector experienced rising vacancy rates earlier in the year due to new construction, those rates have gradually declined. Meanwhile, the office market has remained steady, although vacancy continues to be elevated.

Industrial Market Overview

The statewide industrial vacancy rate appears to be stabilizing, with slight declines recorded over the past two quarters, ending the fourth quarter at 5.4%. However, this rate remains 1.8% higher than the previous year, driven largely by an influx of new construction projects completed during the first half of 2024. A surge in deliveries during the second quarter temporarily pushed the vacancy rate to a peak of 5.7% before beginning to slowly fall.

The Nashua submarket was among the most affected by new construction but showed signs of rebounding in the fourth quarter. Positive absorption returned for the first time since 2022, driven by multiple leases. Notably, Vital Records Control leased the final 126,000 s/f at 48 Friars Dr. in Hudson after acquiring two local document storage companies and consolidating locations.

Switching over to the Salem submarket, a significant driver of absorption this quarter was Analogic Corp.'s decision to relocate its headquarters from Peabody, Mass., to 9 Northeastern Blvd. in Salem. This long-vacant 200,000 s/f flex space will serve as Analogic's new home, enabling the company to double its manufacturing capacity while downsizing overall square footage.

Despite positive trends statewide, the Manchester submarket faced mixed results. Smaller leases were overshadowed by the 439,000 s/f vacancy at 333 Harvey Rd. following True Value's closure of its Manchester distribution center. Announced alongside the company's bankruptcy filing, the closure left the massive warehouse 61% vacant. This single vacancy drove a 6.6% year-over-year increase in the Manchester submarket's warehouse vacancy rate.

As the industrial vacancy rate reached its highest levels in years, the statewide asking rate declined. At the end of the fourth quarter, the average rate stood at \$11.89 NNN, a 3% decrease from last year. This marks a notable shift from 2023, when rents surged by 20%, suggesting a rebalancing in landlord-tenant leverage.

Office Market Overview

The New Hampshire office market showed signs of stabilization in 2024, with the vacancy rate rising by just 0.2% year-over-year to finish the fourth quarter at 13.8%. This marks the smallest annual increase in two years, suggesting a potential leveling-off in market conditions. Class A vacancy statewide remained steady, supported by stability in the Concord, Manchester, and Nashua submarkets.

Leasing activity remained limited in the fourth quarter, with some notable deals, such as Revel Lasers leasing 36,490 s/f in Manchester's Millyard and Albany International subleasing 29,482 s/f of

class A office space at Pease International Tradeport in Portsmouth. However, most of the activity occurred in the sales market.

Key transactions included the \$8.9 million acquisition of the 50,000 s/f former Lighthouse Credit Union headquarters at 100 Borthwick Ave. in Portsmouth. The new owners plan to partially occupy the space, while the remaining space will become available after Lighthouse completes its relocation in early 2025.

Other notable sales include 95 S. Main St. in Rochester, selling for \$1.951 million, with plans to convert the class A building into a 55-room hotel. Additionally, the historic building at 4 Central St. in Farmington, purchased for \$450,000, is set to become mixed-use commercial space on the first floor with residential units above.

With the vacancy rate seeing little change, statewide rental rates rose by 1.3% (\$0.28 per s/f) over the year, ending the fourth quarter at \$21.77 modified gross. Both the class A and class B markets posted gains, but class A saw the most notable uptick, climbing 3.1% (\$0.758 per s/f) year-over-year. The Portsmouth submarket played a key role in the class A rent growth, rising 4.3% (\$1.13 per s/f) over the last 12 months, driven by the leasing of below average spaces.

The fourth quarter underscores a year of recalibration for the New Hampshire industrial and office markets. While industrial vacancy rates remain elevated due to new construction and tenant shifts, absorption trends in key submarkets suggest a potential path toward stabilization. Similarly, the office market's slowing vacancy growth and active sales market, indicate cautious optimism. As we look ahead to 2025, both sectors are poised for further transformation, with opportunities emerging for tenants and investors navigating a dynamic landscape.

For more in-depth information, please view our fourth quarter reports at www.colliersnh.com.

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