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Is the southern New Hampshire industrial market pausing? - by Michael Harrington

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Michael Harrington

The New Hampshire industrial market appears to be pausing before entering the next phase of the market cycle, for how long is anyone's guess. As I pointed out in last year's article, New Hampshire has not been immune from the effects of national macro-economic conditions. Increases in interest rates, low unemployment and increasing construction costs continue to have a dampening effect on growth.

No where is this more apparent than when reviewing the amount of "proposed" industrial projects waiting to be constructed in Southern NH. In a recent survey conducted for an industrial client I found 16 newly proposed properties totaling approximately 4.8 million s/f waiting to be built. Some of these properties were scheduled to be delivered in the fall of 2024 but construction was never started. Some of these properties are expected to start in the spring of 2025, given that demand for high bay warehouse space has dropped off from its peak in 2023, I don't expect any of these properties to be constructed this year. (The obvious exception to this would be if demand came from a user who is willing to commit to leasing 60% or more of the property prior to the start of construction.)

This indicates a pivot point from which our resilient industrial market has leveled off and is taking a slight turn downward in 2025. Based on recent experience working with tenants and buyers in the market coupled with some recent survey data, there is evidence, that demand for industrial space is weakening and that proposed deliveries of new construction has stalled. Assuming the proposed construction of new industrial property does not enter the market, which I believe is a safe bet, I'm expecting vacancy rates of existing buildings to rise slightly in 2025 but still fall within a range of 6% to 7% with market rents remaining within an average range of \$11.50 to \$12 per s/f NNN.

Another factor contributing to some of the market softness that we're witnessing is due to business consolidation. I realize this has occurred since the beginning of time but my sense is this is happening more often and it's due in part to New Hampshire's aging demographic. Elon Musk recently said, "demographics are your destiny". This is noteworthy as NH is the second oldest state in the country. Anecdotally, we are actively working with a buyer searching for existing auto repair and service locations. This buyer has been successful in purchasing the business and the real estate from owners interested in cashing out and retiring. He purchased two locations last year and is planning to purchase two more in 2025. We also just leased 14,400 s/f of industrial space to a tenant in Concord. They needed to expand their footprint due to the purchase of several local fire alarm and sprinkler companies that merged into one. Again, the owners of these local life safely companies saw an opportunity to cash out, retire or semi-retire. These are just two examples but I believe this situation is going to become more prevalent as small business owners look for an exit strategy after years of effort to build their businesses. I mention this because this can have a profound effect on the industrial market thereby creating opportunities for buyers or tenants should this become a larger trend. One would expect that existing industrial buildings will become available as companies are consolidated or moved out of state. The reverse will also happen as companies merge, grow larger and need more space.

The tightest market continues to be Portsmouth. The Portsmouth industrial market continues to be the strongest in the region and is not predicted to experience the slight downtrend that is occurring in the broader Southern NH market. If you're a tenant or a user looking to buy or lease industrial space in Portsmouth you have few choices. Currently, there are no properties for sale and only three industrial/flex buildings for lease. Vacancy rates are the lowest in the region, below 2% and asking rates range from \$13 per s/f NNN to \$15 per s/f NNN. As reported last year, the future outlook for Portsmouth is indicating low vacancy and upward market rents thru 2028.

In summary, with the exception of Portsmouth, the overall industrial market is experiencing slightly higher vacancy and slower market rent growth. The softness in demand from 2024 will continue into 2025 as the momentum of higher market rents, higher sale prices and lower vacancy rates pause in 2025.

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