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Why are contractor bays so attractive to users and investors? - by Dan Scanlon

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A couple of years ago, I wrote about the surge of interest in small-bay industrial spaces – often called contractor bays or flex spaces – from both users and investors across southern New Hampshire. These units, typically ranging from 1,200 to 10,000 s/f, feature limited office space paired with large open bays and either loading docks or drive-in doors. They are utilized by a wide range of businesses, including auto repair, small building contractors, distributors, machine shops, plumbing and heating contractors, electricians, roofers, and more.

User demand for contractor bays remains strong. I recently fully leased a brand-new eight-bay property on South Mammoth Rd. in Manchester. This property attracted a diverse mix of tenants: the property owner is occupying one unit, a Salem manufacturing company expanded with a second location and leased four units, an international distribution company opened its first New England location in two units, and a contracting company relocated its operations to New Hampshire. Similarly, a newly constructed 19-unit property in Auburn was fully leased within a matter of months.

Due to this high demand, the same lack of supply I wrote about in my previous article still exists. Businesses, especially those related to home renovations, which have really exploded as the cost of building new homes has escalated, continue to seek these spaces as they outgrow smaller set ups (like a garage at home).

Supply Challenge

On the supply side, construction materials and labor costs are making it cost-sensitive for developers to undertake speculative projects. However, rising rental rates and consistent demand are beginning to lessen the risk associated with new projects. As a result, we're seeing more developments in the pipeline, either in the design phase or actively seeking approvals. These new spaces are expected to lease quickly once they hit the market, reflecting the ongoing demand.

Ideal Design

I've been getting a few calls lately from developers who own land and are interested in putting up contractor bays. They want to know about the ideal components for these buildings in terms of them being attractive to users. I generally tell them that the units that move the best are 2,500 to 3,000 s/f with a small office space in the front, possibly with some mezzanine space, 14-ft. drive-in doors, 18 to 20-ft. ceiling height, and infrared heating in the bay area. In general, users are looking for 200-amp three-phase electric service, and public water and sewer are nice, but not always necessary.

Rental Rates

Rents for contractor bays, like all industrial assets, escalated significantly even before the pandemic, due to strong demand and limited supply. That trend continued through the pandemic but has begun to abate somewhat as overall industrial supply has grown.

For many years, rental rates for industrial spaces were in the \$5.00 to \$6.00 per s/f range. Prior to the pandemic those rates started climbing into the high single digits, but we are now at a point

where they're in the \$12.00 to \$15.00 per s/f triple net range. Like with any asset, factors like location, quality, ceiling height, power, water, sewer, natural gas, etc., all play a part in the rent. The trick for developers is to reconcile market rent with what they need to get to make the project "pencil out."

Investor Appeal

Investors continue to recognize the strong value of these commercial properties, quickly acquiring them when available — though opportunities remain scarce. Recent notable transactions include:

- The 20,450 s/f, eight-bay building at 35 Londonderry Tpke. in Hooksett, which was acquired by a Mass.-based investor for \$1.975 million (\$97.00 per s/f).
- The 53,950 s/f two-building property at 248-254 Sheep Davis Rd. in Concord, purchased by a N.H.-based investor for \$6 million (\$111.00 per s/f).
- The 8,500 s/f multi-bay building at 1125 Rte. 3A in Bow, bought by a N.H.-based investment group for \$1.075 million (\$126.00 per s/f).

These assets are often ideal 1031 exchange investments due to their stable income potential, low tenant turnover, and long-term appreciation.

I expect to see more construction, and absorption, in 2025. These units were popular pre-pandemic and will continue to be going forward.

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