NEW HAMPSHIRE BUSINESS REVIEW

THE GRANITE STATE'S BUSINESS RESOURCE

Apr. 5 - 8, 2002

Volume 24, #7

www.nhbr.com

Industrial market in a kind of equilibrium

By Bradley Vear

Industrial real estate in southern New Hampshire can best be described as "shaky but stable." While not immune from the economic recession, the industrial sector in the region seems to at least be somewhat inoculated – and able to remain in relative equilibrium in regards to supply vs. demand.

It is important to realize that the term "industrial real estate" is fairly broad in scope. One commonly envisions a manufacturing facility spinning out widgets when thinking of industrial properties, but this sector also includes R&D space and "flex" space, which often translates into benchwork areas, or a mixture of mostly office with some warehouse space within a single-story steel-framed building.

Given this wide spectrum of industrial uses, you can begin to see patterns of what type is in greater demand or greater supply. My observations are mostly based on empirical evidence gathered from the "traffic" at the various types of industrial properties we are marketing – put it into the "heard on the street" category – as well as being referenced from our property tracking database.

The R&D and larger pieces of flex space (more than 15,000 square feet) seem to be in greatest supply and least demand. It is not surprising that this end of the industrial spectrum also looks for the highest rates ($7 to $9 per square-foot triple-net) as well. Rental rates have peaked and softened for landlords holding on to vacant R&D or flex space. These landlords often find themselves competing with sublease space for the same tenants.

However, smaller increments of flex space (less than 6,000 square feet) are not as readily available and continue to attract smaller users that need space that is less expensive than higher priced office buildings offer.

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Manufacturing space — falling into the middle of the spectrum, both on price and the supply-demand curve — seems to be holding its own. Smaller and/or newer manufacturing properties (10,000 to 25,000 square feet) are always in higher demand than the larger or older buildings. The demand to purchase vs. lease this type of property remains as strong as ever, given the still attractive interest rates and the long-term outlook of most manufacturing owners.

Lease rates have not moved much on manufacturing space and generally fall in the $6 to $8 per square-foot triple-net range, depending on age, location and services. I believe that construction activity over the next year or two will be strongest within the manufacturing sector of industrial users, either in new build-to-suit projects or major additions or renovations.

Warehousing and distribution space fills out the lower end of the industrial property spectrum. It's not sexy, but it remains in steady demand, especially for facilities with reasonable highway access and high bay construction. Lease rates may vary from $5 to $7, but they have not moved much either way. Large requirements (more than 30,000 square feet) are difficult to fulfill from existing inventory and the alternative of a build-to-suit faces a diminishing choice of suitable industrial sites having decent access or easy topography.

Geographically, established industrial parks throughout the region continue to remain strongest and in greatest demand. This includes the Manchester Airpark area and East Industrial Park, Salem's Exit 2 area, Nashua's Northeastern Boulevard industrial park, Hudson's Sagamore Park and smaller industrial parks in outlying areas. The reason for the strong demand is simple: Companies needing to grow usually look in their current neighborhoods first. These industrial parks all have an assortment of multi-tenanted facilities that act as natural incubators, spawning successful growth-driven companies. Properties in the outlying areas or those that have a low surrounding industrial base, tend to remain vacant the longest and have felt the downward pressure on rental rates. NHBR

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