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Will investors continue to be attracted to New Hampshire properties as interest rates climb? - by Kirstie Russell

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The New Hampshire industrial market remains an attractive market for investors, with vacancy rates stabilizing and rental rates climbing over the last couple of years. Moving forward, will investors continue to be attracted to N.H. properties as interest rates climb? Over the last quarter, the trend continued as the industrial sector's vacancy rate remained low and the high demand for space has led to many investor sales this quarter. While there is not the same amount of interest in the office market, with the vacancy rate leveling out, investment activity picked up slightly during the third quarter.

Industrial space continues to be hard to find with the overall vacancy rate hovering around 3% over the last four quarters. Demand for the limited inventory has caused the average rental rate to soar over the past two years. Rents have increased by 26.4% (\$2.18 per s/f) year-over-year, ending the quarter at \$10.45 NNN.

As the trend continues, it is no surprise that this sector is attracting investors. One of the most active investment groups is RJ Kelly Co., which acquired 18 properties over the last quarter. In August, RJ Kelly purchased 14 properties in separate transactions totaling 745,500 s/f for \$90 million, with an average sale price of \$118 per s/f. The properties are in Amherst, Hudson, Londonderry, Manchester, Nashua, and Salem. Then in September, it purchased 112,360 s/f in three flex buildings on 13.05 acres for \$13.375 million (\$119 per s/f) at 15, 18, 20, and 22 Continental Blvd. in Nashua.

Lincoln Property Co., an investment group based out of Texas, purchased four fully-leased flex buildings during the quarter from Albany Road Real Estate Partners. The sale included 5 Wentworth Dr. in Hudson, 22 Cotton Rd. in Nashua, and two Manchester properties—645 Harvey Rd. and 1050 Perimeter Rd., and sold for a total of \$69 million, an average price of \$127 per s/f.

After that portfolio sale, Albany Road Real Estate Partners, a Boston-based investment group, purchased the 177,170 s/f warehouse/distribution building at 144-146 Main St. in Plaistow and the two abutting lots for \$21.138 million (\$119 per s/f). The building then reached full occupancy with Didax, an education supply distributor, leasing the remaining 52,750 s/f.

In the office sector, the vacancy rate was relatively flat with a 0.5% decrease since last year, ending the quarter at 11.2%. Although a nominal change, this was the first time since the beginning of 2020 that the vacancy did not rise. Rental rates on the other hand have continued to increase over the last three years, climbing by 5.2% (\$1.01 per s/f) year-over-year and ending the quarter at \$20.52 modified gross.

With the vacancy rate seeming to have leveled out over the last six quarters, investors became more active during the third quarter. Torrington Properties, the Boston-based investor group, expanded its N.H. portfolio by purchasing the 236,000 s/f Class A property at 100 Domain Dr. in Exeter. The asset sold for \$46.9 million (\$178 per s/f) and was about 71% occupied at the time of the sale by a variety of tenants - including Bauer Hockey, FH Cann & Associates, Digital

Prospectors, Garnet Hill, and Vapotherm.

Two other sales that closed over the quarter were to two separate N.H.-based investors. In Nashua, a local investor bought the 119,500 s/f class A office building at 30 Temple St. for \$10.7 million (\$90 per s/f). The building was about 80% occupied at the time of the sale. In Concord, Sarnia Properties purchased the fully leased, 65,520 s/f class B office building at 6 Loudon Rd. for \$10.5 million (\$160 per s/f).

With the number of investment sales and the variety of investors purchasing properties, the question is whether it will continue. One of the biggest conversations that could impact investors is the direction of interest rates. However, the degree of the impact depends on the company and the property—for larger firms, someone working on a 1031 exchange, or someone who does not need financing, an increase in interest rates may not affect them right now. However, for owner-users or investors that need financing options, an increase in the rate could influence their actions. It may delay some in buying property, or it may lead others to move quickly and lock in the rate before they rise. It may also lead to lower valuations.

The good news for investors is that both the office and industrial sectors are currently in stable positions, with vacancy rates leveling in both sectors and rental rates higher than recent averages. As we go into what is usually a historically busy quarter, we will have to wait and see how the economy and interest rates impact the N.H. commercial real estate market.

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