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New Hampshire Spotlight: Looking ahead into 2023: rising interest rates & CRE sales - by Bill Norton

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Bill Norton

Well. We all made it through 2022. It was a bit rocky but not too bad. Interest rates are up. Construction cost are still way up. Consequently, existing buildings look cheap (well at least “reasonable” in comparison). We suspect this will continue into 2023. Clearly construction costs are not coming down significantly unless/until we go into a deep and protracted recession. Alas, we must be careful what we wish for. While it would be great to re-set construction costs to more normal and reasonable levels, we do not want to plunge off an economic cliff!

The office sector remains anemic as work-from-home and post-COVID protocols are still (slowly) emerging, we are not seeing new office demand. In fact, existing tenants want to renew for less space as a general rule. Our supposition is that this trend may “self-correct” over time. We have seen recent studies citing lower productivity from remote workers. What is strong here is conversion of office buildings into residential. To wit Brady Sullivan at 1000 Elm St., 1240 Elm St. and just recently the Cigna building in Hooksett (to name a few).

The retail sector is spotty. Macy's has come out with a new downsized model (31,000 – 60,000 s/f). The 120,000 – 160,000 s/f stores are dinosaurs except in very large metro markets. Many former retail spaces like sears, have been converted to self-storage. Some existing self-storage properties are selling for \$100/s/f! Smaller spaces (Starbucks, Wendy's, and other fast foods) are plugging holes in suburban markets. But the full effect of online sales, including Door Dash and other delivery platforms is still playing out.

Apartments and Multi Family are hot,hot,hot! The costs are way up, but so is demand! Rents appear to be plateauing and are shrinking slightly in some big markets. Here in NH all new construction is getting top dollar rents. However, utility costs are now a big deal. Even so, we see no letup in this sector.

Warehouse, High Bay, Manufacturing and Distribution is also hot as a pistol. While Amazon and other global distributors have pulled back, there remain shortages in many markets. This too is in short supply and while new space is being permitted and built, it takes time to come online and it is EXPENSIVE! (\$150+/s/f).

Hospitality has bounced back very strongly. Inns, hotels, B&B's and even restaurants are trading. Two short years ago the entire sector was ready to commit hari-kari. Not today, things are good. Who knew?

High Tech and Lab have converged and are coming of age in Manchester due to the impact of the Advanced Regenerative Manufacturing Institute, ARMI which was championed by Dean Kamen who brought ARMI to Manchester's historic Mill Yard. An example of this convergence was the announcement in June 2022 by Maryland-based United Therapeutics of their commitment to expand operations to manufacture 3D-printed organs by leasing the entire mill building located at 100 Commercial St., previously occupied, since 2000 by Autodesk. This activity coupled with other high-tech, biotech companies looking to bolt onto the ARMI and are having a transformative impact

on the Mill Yard, The city of Manchester and the Region.

Looking ahead into 2023, rising interest rates will be the #1 factor for CRE sales, followed by ongoing very very high construction costs. Relatively speaking utility costs are rising as well, it all contributes to “occupancy cost.” Inflation is out there. Have you bought any eggs or milk lately? At some point this bites into household incomes, which slows then stops consumer spending. With 70% of the economy being “services”, this is our soft underbelly. The bottom line is the Fed is either going to orchestrate a smooth/soft landing.... Or not! Time will tell. Our best guess is the first half of 2023 should be more of the same. The second half.... well, that could be another story.

Bill Norton, CRE, FMA, Hon. AIA NH, is president of Norton Asset Management, Inc., Manchester, NH.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540