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March 2024 New Hampshire CIBOR president's message: Minimal increase in sale prices - by Ethan Ash

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Ethan Ash

During this time of year, I eagerly anticipate reading the New Hampshire Real Estate Year in Review published by NHAR and PrimeMLS. It provides valuable insights into the real estate industry's current state and the evolving landscape across different regions of the state. It comes as no surprise that 2023 witnessed a significant decrease in real estate sales volume. However, there has been continued appreciation in the value of single-family houses and condos. From a modest 4.3% appreciation in Rockingham County to a remarkable 33% increase in condo values in Sullivan County, we have observed nearly double-digit appreciation year-over-year for four years. Despite the absence of signs indicating price stabilization, there is a noticeable decline in the number of sellers willing to enter the market in this environment.

This trend isn't exclusive to houses; multi-family properties have also experienced similar increases in value, driven by an 11.4% rise in median gross rent. Consequently, finding a property for sale priced within 50% of its 2020 value has become increasingly challenging. For investors it is a search to find a property that is currently producing a cash flow to the owner as many landlords are not increasing rents at the rate the market is dictating.

Now, let's delve into the realm of commercial properties. Focusing solely on the state of New Hampshire for a more direct comparison, data from NECPE reveals the following trends:

- Industrial lease rates have surged by 7%, while prices have increased by a marginal 1.3% year-over-year.
- Office lease rates and sale prices have both seen a modest 1.9% increase.
- Retail lease rates have risen by 1%, but sale prices have experienced a notable decline of 5.5%.
- Land stands out as the only category experiencing a similar rate of increase to residential properties, with a substantial 19% uptick. This can be attributed to many land opportunities being earmarked for single-family homes or condos that have been approved for development.

Interestingly, all types of commercial properties have witnessed an uptick in lease rates, but there has been minimal to no increase in sale prices. This suggests that the correlation between lease rates and sale prices in commercial real estate doesn't align as closely as it does in the residential sector. While lease rates have slightly increased, sale prices have remained stagnant or decreased.

Given historical correlations between inflation and real estate prices, commercial properties may present attractive opportunities for investors. If commercial sale prices increase in value at the same rate as residential properties (which to this point commercial properties are lagging in appreciation) then there might be a market correction in our future. Those considering commercial real estate investments might find it prudent to act before prices surge, as they have in the residential market.

Ethan Ash is the 2024 president of the N.H. Commercial Investment Board of Realtors, Bedford and

is a real estate agent at Coastal Land & Commercial Group, Keller Williams Coastal, Lakes & Mountains, Portsmouth, N.H.

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