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New Hampshire market continues to adapt - by Kristie Russell

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The direction the New Hampshire office market will take has been questionable due to, and since, the pandemic. Many thought companies would leave their office space, which would lead to a spike in the overall vacancy rate. Even before the pandemic began, really since the third quarter of 2019, the office category saw a slow climb in its vacancy rate. Fast-forward to the end of the first quarter of 2022 and the office vacancy rate sits at 11.3%, roughly 3.6% higher than three years ago.

This almost sounds like the office category followed the predicted course – companies abandoning office space and no one to backfill the vacancy. However, the New Hampshire market continues to adapt.

With the vacancy rates in most submarkets rising, especially in area like the Manchester submarket, landlords are looking for a better way to use office space. In 2021, the Manchester office submarket had 101,000 s/f of mostly vacant office space converted to multifamily use.

As significant an amount of space this is, it doesn't even include any of the proposed conversions. Some proposed projects include the eight floors at 1000 Elm St. that are being converted to 134 multifamily units, the 184,000 s/f flex building that will be torn down to make way for up to 260 units on W Auburn St., and the 160 affordable housing units to be built at the old police station on Chestnut St..

It is not surprising for an area like Manchester to see vacant space undergoing multifamily conversion when the area is in desperate need of housing. This trend is not just happening in the Manchester submarket. There are two potential conversion projects in the Concord and Nashua submarkets being proposed. The former Cigna facility on College Drive in Hooksett has sat vacant since the first quarter of 2020. After purchasing the building in May 2021, Brady Sullivan Properties is proposing to convert the 97,200 s/f building to multifamily. In Merrimack, the former Brookstone headquarters on Innovation Way has been vacant for over four years and there are plans to convert the 100,500 s/f office building into 90 residential units.

The question is how will this impact the office category? If more than 10% of the vacancy in the Manchester, Concord, and Nashua submarkets are converted, it would drop the vacancy rate significantly. Typically, when there is less office activity, rents stabilize and potentially begin to fall. However, if vacancy rates drop due to a lower supply, asking rents may rise in certain submarkets or in certain categories of space. Further, if the proposed conversions are approved, the downtown Manchester market could lose more office space.

It will still take time for the office market to feel the impact of this trend, given the uncertainty of the timing for the proposed conversions to take place. For now, due to office inventory being removed as it is converted to multifamily, the market looks to be stabilizing.

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