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New Hampshire office market 2024 - by Michael Harrington

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What is happening with the New Hampshire office market? Given the amount of negativity and speculation regarding the state of the office market, I thought it would be helpful to turn the spotlight on this important segment of the commercial real estate market. If you're like me, any board meeting I attend, fundraising function or public gathering people want to hear our take on the office market. The knee jerk answer from the casual observer is, the office market is "terrible", "nothing is happening" and "I'm sure glad I don't own an office building". This is understandable given what we read and hear in the media, but this response minimizes the hard work, spent capital and intellectual capital being poured into this category of investment by owners and real estate advisers to help reposition these properties.

This spotlight article attempts to provide some statistical data for the N.H. office market coupled with some "boots on the ground" observations and experiences of what is actually transpiring in this segment of the commercial real estate market.

The current market, as you probably expect, is not good for office building owners. Since the pandemic, some would argue even before the pandemic, there were signs that the office market was slowing and showing signs of being over-built. Below are the results of a recent survey of the Southern N.H. and Seacoast office markets, using CoStar analytics that show weakness in the market.

The survey consisted of 11,400,000 s/f of office space, net absorption is a negative (386,000) s/f, increasing from a negative (47,900) from the prior 12 months. The vacancy rate is 22.9%, increasing from 18.8% from the prior 12 months. Total vacancy including sub-lease space is 27.9%, which I suspect is low given the amount of "dark space" not yet being reported as available. Market asking rates have stayed level at \$20.77 modified gross. CAP rates have increased from 9.5% to 9.9% and the average market sale price reported at \$101 per s/f. And, not surprisingly there is no reported new construction of office buildings.

To state the obvious, these market conditions are favorable for tenants and buyers searching for space. As such, landlords find themselves in a very competitive environment, having to give concessions on rate, provide free rent, shorter lease terms and provide tenant improvements in order to retain and capture tenants. To make things even more challenging, utility costs, real estate taxes, insurance and TI's have all gone up, thereby lowering their net rent which is needed to pay debt service and provide a return to investors. (Unfortunately, this all adds up to a loss of value either real or unrealized.)

A few of the dynamics affecting the Southern N.H. office market include, an aging demographic that is either retiring/semi-retired and are leaving the workforce without being replaced. Coupled with the ability for employees to work from home. The work from home phenomenon, spurred by the pandemic, is not going away any time soon as employees search for the "right" work/life balance. Advancements in technology have profoundly changed the way we work and the resistance by employees returning to the office five days a week seems to be settling out at three days per week

(with Monday and Friday being work from home days). Both of these trends are predicted to continue as technology improves (AI) thereby further reducing professional office employee headcount.

For those of us who have lived long enough, we've seen downturns like this before. Unlike the market downturn of the 1990s, regional banks and equity lenders are not rushing to foreclose or to take over these assets. There appears to be a willingness by lenders to work with borrowers to re-position properties, blend and extend financing and/or give the owner time to sell or raise capital. Some sound advice to building owners given by the CEO of a Boston-based bank to #CRE-NE members at a recent meeting of The Counselors of Real Estate, is to communicate with your lender. "This is a time for more communication not less."

The tactical work occurring in the Southern N.H. office market includes this; tens of thousands of square feet have been taken out of the market by converting office space into residential housing units. One local owner has creatively transformed a parking garage, once needed to support his office building, into market rate apartments. Also, traditional office space is being converted to non-traditional office uses. An example of this occurred when Bill Norton, #CRE and I worked with the owner of a vacant 20,000 s/f former headquarters building in Concord. The building was repositioned from single-tenant to multi-tenant by splitting the floors and creating a common entry. The ground floor was leased to a charter school and the upper floor was leased to Regis for shared office use. Other examples include, the current transformation of former mill office space into bio-tech manufacturing space occurring in Manchester's mill yard, known now as "ReGen Valley".

In summary, the Southern N.H. office market is experiencing a transformation and will continue to experience challenges as the market "right sizes" in order to accommodate the employees of the future.

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