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Navigating shifts: New Hampshire’s office market resilience amid national uncertainty - by Bob Rohrer

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It is hard to find any publication with positive things to say about the commercial office market — and for good reason. COVID and post-COVID shifts in the workplace have solidified the work-from-home (WFH) model as more than just a trend. On a national level, this has led to office vacancy rates of around 17.5%. This, in turn, has created challenges in capital markets, where year-over-year sale prices have dropped by 12.4%. Even properties with strong tenants are only achieving cap rates in the 8% to 9% range. Lenders are also seeing more activity in short sales and deeds in lieu of foreclosures.

However, with such volatility comes opportunity. Private capital — such as private equity firms, family home offices, and high-net-worth individuals — are entering the market, searching for bargains. This is far from the rosy picture seen before COVID.

It may take some time for the national office market to stabilize. For every company announcing plans to bring employees back to the office, even just for a few days a week, there are two others quietly retreating from those declarations due to employee pressure to keep WFH policies in place. Office buildings that could be cost-effectively repurposed have already been converted or are in the process of being changed. There's likely still some pain ahead for owners and debt holders before the office market finds equilibrium.

As is often the case, New Hampshire's office market is more stable compared to the national picture. The statewide vacancy rate stands at 14.4%, a year-over-year increase of 3.4%, but a closer look reveals a relatively steady market overall.

The Manchester, Concord, and Nashua submarkets have nearly returned to pre-COVID vacancy levels, though each has taken a different path. The Manchester submarket, for instance, has seen a notable amount of office space - approximately 521,700 s/f (7.6% of the total city's inventory) - primarily in the downtown area, repurposed or removed from the leasing market. Additionally, the growing bio-med industry has absorbed roughly 403,818 s/f of space in the Millyard. While many office users have reduced their footprint, especially in suburban areas, the submarket's vacancy rate has remained stable at 8.5%, the lowest in the state.

Though Manchester's submarket appears strong compared to other submarkets and the national figures, the vacancy rate might be masking potential instability. Many tenants are looking to upgrade but reduce their overall office presence, a trend expected to continue through at least 2025 as leases expire. Landlords will likely stay busy, balancing tenant retention efforts and attracting new occupants, all while keeping an eye on their bottom line. Interestingly, should WFH model reverse, Manchester could actually face a supply shortage, and end up wishing there had been less conversion activity.

Concord's office market has also seen repurposing, such as the partial conversion of 11 South Main St. from office use to a boutique hotel. Concord's lower vacancy rate of 9.1% is primarily due to smaller office users entering the market and increased activity from government and quasi-government organizations. A modest amount of newly available space and the continued appeal of being the state capital have helped maintain the market’s stability and keeping the vacancy rate increase to just 1.5% year-over-year.

The Nashua submarket has benefited from its proximity to the Mass. border, attracting businesses looking to establish a New Hampshire presence while staying close to the Boston market. Like other areas, however, it has been affected by WFH policies, particularly around the market segments at Exit 1 and Exit 8 off the FE Everett Tpke. Despite this, Nashua’s vacancy rate has only increased slightly, rising by 1.7% since 2020 to 13.1%. The submarket is likely to see modest tenant gains as new companies move in.

Portsmouth, once the hottest office market in the state, has struggled post-COVID. Before the pandemic, the city, especially the Pease Tradeport area, experienced new office construction and conversions (e.g., large flex/distribution facilities) as companies flocked to the Seacoast. But in the wake of COVID, diminished office needs have pushed vacancy rates up to 18.2%, a jump of nearly 3.7% in the last 12 months and a 12.9% increase since Q3 2020, when it had the lowest vacancy rate in the state. It may take a few years for Portsmouth to absorb the excess office inventory, but balance sheet weaknesses similar to those seen nationally are not anticipated.

The smaller Salem and Dover submarkets are more vulnerable to large swings in vacancy rates, especially when key tenants enter or exit. Dover’s vacancy rate, for example, skyrocketed from 3.1% to 37.3% following Liberty Mutual’s closure of its 500,000 s/f office park. Without this major vacancy, Dover is performing reasonably well.

Salem’s office market faces similar challenges. It has seen significant growth in multifamily and retail sectors, but several major office users left, leading to a vacancy rate of 26.9%. This rate has been stubbornly high, going back to 2020 when it was 18.9%. However, it has dropped by 1.2% over the last year as new tenants moved into vacated spaces, to ease the situation. Like Nashua, Salem benefits from its proximity to Mass., which, along with modest organic growth, should help reduce its vacancy rate over time.

In summary, New Hampshire’s office market is more stable than national statistics suggest. The state’s office infrastructure appears to be in a stronger financial position than many parts of the country. While things aren’t perfect, they are - on a relative scale - not too bad.

All national data was provided by the Colliers US Capital Markets team.

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