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Reflecting on Q4 2023: A comprehensive review of Portsmouth and Dover submarkets - by Abby Bachman

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As we ramp up in 2024, it's an opportune moment to delve into the trends of 2023, transactions, and developments that defined the industrial and office sectors within the Portsmouth and Dover submarkets.

New Hampshire Dynamics Overview:

Upon examining the New Hampshire market, it's clear that both the industrial and office sectors are undergoing dynamic changes. Industrial is slowing down slightly with deals taking longer to close, but the market is still tight with a vacancy rate of only 3.6% by the end of Q4 2023. On the other hand, the office market is seeing subdued demand, leading to an average vacancy rate of 13.6% statewide, pushing landlords to be more adaptive in attracting and retaining tenants.

During this period, rental rates played a significant role in shaping the market landscape. Industrial properties are commanding an average rate of \$12.55 NNN, which is a significant increase (by 14.6%) from the \$10.60 NNN observed in Q4 2022. The office sector was more stable, increasing by only 3.6% compared to last year. Rents were \$20.74 modified gross in Q4 2022 and ended 2023 at \$21.32 modified gross.

Portsmouth Submarket:

As usual, the Portsmouth submarket was a hub of commercial activity over the past year, with notable sale and lease activity, as well as a flurry of industrial construction projects. Industrial vacancies are at an all-time low, with only a 1.0% vacancy rate by the end of 2023. These spaces are commanding an average rate of \$11.46 NNN, which is a significant increase from \$9.24 NNN in Q4 2022.

Notable deals in the Portsmouth submarket include the \$33.25 million (\$98 per s/f) investment sale of 150 Ocean Rd. in Greenland, a fully leased asset to Cole Haan, and the pre-lease by FIDELITONE for a 102,000 s/f warehouse space. The area has also witnessed new construction activities, with landmark projects like Lonza and Vertex Pharmaceuticals Inc.'s manufacturing facility at Pease International Tradeport. Projects like these speak to the continued growth and investment in the area.

The office sector in the Portsmouth submarket is seeing less demand, with a 3.2% increase in the vacancy rate over the last year, ending the fourth quarter at 13.5%, just below the statewide average. However, investors are still attracted to the right assets in the area, with Portsmouth leading the average asking rate at \$25.20 modified gross, after a 3% increase over the last year. A prime example is the \$13.5 million (\$160 per s/f) sale of 1 Hampton Rd. in Exeter, with a 95% lease occupancy at the time of sale to office and medical users. Additionally, Peak Achievement Athletics Inc. renewed its office lease in Stratham, highlighting Portsmouth's status as a vibrant commercial hub.

Dover Submarket:

The demand for industrial space in the Portsmouth submarket has overflowed to the Dover

submarket, resulting in the area's vacancy rate dropping to 3%, making it the second lowest in New Hampshire. Although there was an additional 150,000 s/f of new inventory added in the last year, the vacancy rate still dropped by 0.7%. Unlike other areas throughout New Hampshire, rental rates in Dover decreased from \$12.27 NNN to \$11.30 NNN at the end of 2023. This rate drop was due to most space being leased over the last year in the flex category, which is typically at a higher rate. By the end of 2023, around 20% of the flex space had been absorbed within the last year. The majority of this absorption occurred at 121 Technology Dr. in Durham, where several new tenants signed leases. Notably, Brazonics Inc. committed to a lease for 93,246 s/f for over 15 years.

The strength of the market was highlighted by several investments, sales, and development. One of the larger sales was the purchase of the fully leased 55,600 s/f warehouse building at 74 Industrial Park Rd. by 74 IP, LLC for \$5.25 million (\$94 per s/f). On the development side, Sig Sauer proposed expansion plans in Rochester, signaling continued momentum and investment in the region.

The Dover office market saw a significant drop in its vacancy rate over the last year due to Liberty Mutual closing its Dover facilities and relocating most of its employees to Portsmouth. This led to a 28% spike in the area and capped off 2023 at 38.2%, the highest rate in New Hampshire. With the elevated vacancy, rental rates are among the lowest in the state at \$15.21 modified gross, a drop of 19.3% (\$3.65 per s/f) compared to last year.

While the Liberty Mutual space impacted the vacancy rate, it left rental rates untouched as the property is for sale. Most of the rent reduction was due to space being taken off the market that was listed at high rates. For example, 100 Education Way in Dover was listed at a higher-than-average rental rate, but was purchased by Northeast Credit Union for \$7.5 million (\$75 per s/f).

In conclusion, the fourth quarter of 2023 showcased the vibrancy and potential of both the Portsmouth and Dover submarkets. As we look ahead to the coming year, we anticipate continued growth and evolution within these sectors, with new trends and transactions on the horizon. Moving forward, stakeholders must remain adaptive and forward-thinking to capitalize on emerging opportunities and navigate the evolving dynamics of the commercial real estate landscape effectively.

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