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Greater Portland vacancy rate drops to 5.5%

March 06, 2014 - Spotlights

NAI The Dunham Group has once again produced the Greater Portland Industrial Market Survey and this year's results were stunning. The overall vacancy rate in our market has dropped to 5.5%, down from an estimated high of 11-12% in 2007 & 2008. The total industrial inventory of roughly 16 million s/f has not increased in over those years. As a result, steady demand and growth has led to significant positive absorption. Accordingly, lease rates have risen across the board and landlord's have regained leverage over tenants.

Local and regional industrial businesses have seen an improving economic landscape the last two years, in particular. Therefore, they finally feel comfortable and confident in reinvesting in their businesses through real estate expansions and/or relocations. We have not, however, seen a large amount of out-of-state companies come into the market. So the positive trends we're tracking are truly organic growth.

Two booming industries in Greater Portland that have impacted the market are microbrewing and medical marijuana cultivation. Portland has become a hot-spot for the microbrewing craze and no fewer than a dozen small-medium sized breweries have opened in the last two or three years. Additionally, existing breweries like Allagash, Sebago Brewing and Maine Beer Co. have made significant real estate expansions in the last year. The medical marijuana industry, while controversial, has proven to be a boon for industrial landlords. These tenants are highly regulated, well-funded, quiet, secure and willing to make infrastructure upgrades to their leased spaces. Despite the taboo use, they are proving to make ideal tenants.

For 2014, we are forecasting a stabilized leasing market as vacancy rates should level and perhaps tick up. The demand remains steady and, as inventory is so low, we expect new construction and land interest to increase. Commercial land lot sales and leases have been almost non-existent during the recession. So pricing is competitive and deals are buyer-friendly.

We are also predicting that secondary industrial markets like Lewiston/Auburn and Biddeford/York County will see an increase in demand. Local Greater Portland industrial users will have no choice but to expand their geographic searches as supply remains low. This is a drastic change from 2-3 years ago, where a tenant-rep assignment would produce over a dozen suitable options. Now that tenant will be lucky to have more than 3-4 locations to consider.

Lastly, the industrial investment market is extremely competitive as it is in all commercial real estate sectors. Cap rates have fallen for the 4th consecutive year and we are seeing increased interest in cash-flowing properties from out of state buyers. Sale-leaseback opportunities, as a result, are becoming more attractive to sellers as businesses look for creative ways to increase capital and set-up attractive exit strategies.

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