nerej
19 63 CELEBRATING 55 YEARS

Representing tenants and buyers in a slowly improving economy in Greater Portland - by Justin Lamontagne of NAI The Dunham Group

February 26, 2015 - Spotlights

You know those flashing orange NO Vacancy signs you see on Maine's motels and hotels in the summer time? We need some at the entrance to most of Greater Portland industrial parks too. For the fifth consecutive year, the overall vacancy rate dropped dramatically. As of December 15, 2014 it is a remarkably low 4.1% and that includes Biddeford.

Our theory on this continued absorption is relatively simple. As the economy slowly improves, Maine's small and medium sized businesses are growing accordingly. They are re-investing in their companies, and this often leads to additional space needs. That's all good. However, the inventory hasn't increased at nearly the same pace. In fact, you can count the number of new industrial style buildings built in the last five years on two hands. So, as demand increases and supply stays the same over an extended period of time, we have a space crunch.

And that crunch is proving very problematic for a number of users. Our experience in representing tenants and buyers in this market has changed dramatically since the recession. Today, I'm advising my clients to budget for more time and to allow for compromise in infrastructure and location. Our team is currently working with at least a half-dozen Maine-based industrial companies who would like to relocate and simply cannot at this time. They have no place to move to.

A telling result of this environment is that lease renewals are becoming more and more common place. Several state and national based businesses tested the market, didn't like what they saw, and ultimately renewed with their current landlords. Interestingly, landlords are proving to have long memories and are not unreasonably increasing lease rates on their existing tenants. Renewal negotiations, anecdotally, seem to go smoothly in this market and I expect that to continue.

So what's next? Well, we need more inventory. Interest in commercial land has soured in the last 12-18 months and I fully expect new buildings to be added to the market this coming year.

Owner/users are best positioned to buy raw land and build, but I would not be shocked to see speculative building by a bullish developer this year, as well.

I also fully expect secondary markets to take advantage of the tightening Portland market. Areas of southern York County, Lewiston/Auburn, and the mid-coast are poised to see an increased demand as users have no choice but to cast wider geographic nets. Lastly, the demand for cash-flowing industrial property, like in all sectors, continues to drive cap rates down. Investors are now taking on more risk, shorter lease terms and properties with more upside as investment-grade supply remains scarce.

Justin Lamontagne is a broker at NAI The Dunham Group, Portland, ME.