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Southern Maine's commercial real estate is in demand

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Southern Maine's commercial real estate market remained healthy through the 1st quarter of 2015. For the last two years, the flurry of activity in the sales market for owner/users and investors has primarily been attributed to attractive interest rates and pricing. With interest rates still low and the anticipation that a rate increase is on the horizon, one could claim that rates are still the major driving factor for demand. However, with increased competition in the commercial leasing market, commercial construction on the rise, and the amount of planned new developments that should break ground in the near future, the upswing in southern Maine's commercial real estate market seems to correlate more with a healthier economy.

One of the first things we learn in the commercial real estate world is supply and demand. When I started my career in commercial real estate in 2000, it was all demand and no supply. At the time, the tech boom was in full force and the phones were ringing off the hook with prospective office tenants looking to be in downtown Portland. The supply of office space was so limited, some tours would be limited to two or three options with the prospect having to make a quick decision or they ran the risk of losing the space to another party... Oh, those were the times.

During the recession, it was all for lease signs with limited to no demand from office, retail, and industrial tenants. The exception of the rule were office and industrial tenants that had lease expirations during the Recession and decided to relocate and cash in on attractive pricing and tenant improvement packages, office and warehouse users that needed to downsize due to the soft economy, pharmacies and banks (everyone needs a pharmacy and a bank regardless of the market), and retailers and quick service food operations that cater to customers with a tight budget (dollar stores, sandwich franchises, etc.).

Over the last several years, the momentum has changed again. New franchises have opened in the Southern Maine marketplace and are now expanding their territories, the office vacancy rate for greater Portland has continued to decline with asking rates for office increasing, and there is demand by distribution and warehouse tenants looking to be in the industrial hubs of greater Portland.

In mid-April, I ran several searches for office and industrial spaces available for lease through the Catalyst Database. For office space in downtown Portland ranging between 5,000 - 10,000 s/f, I came up with twenty five different office buildings with availability. Out of the twenty-five options, twelve buildings offered class B office space at an average asking rate of \$15 per s/f modified gross, ten class A office buildings were offered with an average asking rate in the low \$20s per s/f modified gross, and three options of new development were advertised at asking rates averaging in the high \$20s per s/f NNN. Two years ago, the office supply in downtown Portland was substantially higher and transactions for some of the same office buildings were leasing for \$5-10+ per s/f less with significant tenant improvement incentives in place. Now we have higher asking rates, prospective

parties often competing for the same space, and Landlords are offering far less incentives.

For my industrial search, I included all of Portland and broadened the square footage parameters. I came up with only nine lease options for spaces between 2,500 - 5,000 s/f with asking rates as high as \$10.50 per s/f NNN and a mean around \$7 per s/f NNN, five options for industrial spaces between 5,001 - 10,000 s/f with an average asking rate of \$6.75 per s/f NNN, and twelve options for 10,001- 20,000 +/- s/f with asking rates across the board. With Portland being Maine's largest city and part of Southern Maine's Hub for distribution, that is not a lot of inventory and thus, the higher asking rates reflect this.

As we move through the 2nd and 3rd quarter of 2015, I anticipate a continuation of high tenant demand and competition in the southern Maine marketplace and attribute the activity to a healthy economy. However, when there is a lot of tenant demand, the developers come out of the woodwork to provide more supply. Pending the amount of new development that comes to fruition this year, the momentum could slowdown slightly as the marketplace deals with the absorption of newly added space.

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