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## **The commercial real estate market in southern Maine forecasts a strong finish at year-end**

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The commercial real estate market in southern Maine has been very active through the 3rd quarter of 2015 and market forecasts suggest a strong finish at year-end. Increases in available jobs and declining vacancy rates are both driving forces in Portland's economic growth. Additionally, interest rates have remained low and capitalization rates on investment grade properties remain relatively high. This has made Maine a viable place for investors to park 1031-exchange dollars. As we head into the 4th quarter of 2015, we should continue to see more of the same trends.

The Greater Portland office market continues to improve; last year's vacancy rate was 7.84%, down 2.4% from 2013. We have seen a slow decline in the vacancy rate causing an increase in asking rates. With decreased vacancy rates comes increased demand for new office product and in some cases, non-traditional uses converting space to fit their needs. A good example of this trend is seen in the Maine Wharf project at 68 Commercial St. Brokered by Steve Baumann of Compass Commercial Brokers, this property has been filled with a mix of retailers on the first floor, and the 15,000 s/f of waterfront office space will soon be home to the Portland Science Museum. Another recent example is 496 Congress St. Traditionally office space, one of the second floor units was recently renovated to become home to The Escape Room.

The retail market in Greater Portland has and continues to be red hot. Portland has built an extensive rep as a "foodie" community and we've seen this trend continue this year with the opening of a number of new restaurants. We've also seen correlation with the hospitality boom as a number of new restaurants have landed in Portland's new hotel projects; TIQA in the Courtyard Marriot, EVO in the Hyatt, and M.C. Union in The Press Hotel. Another notable project is the anticipated opening of Dana Street and Sam Hayward's new seafood restaurant "Scales" on the Maine Wharf. South Portland also has some notable restaurant openings; Puerto Vallarta taking over Wild Willy's, B. Good Burgers taking over Gourmaine, and The Tilted Kilt taking over the 8,500 s/f at the former Captain Newick's space. In addition to restaurant openings, Portland has seen some larger retailers enter the market. Anthropologie opened on the corner of Middle and Pearl in March. CarMax has identified a location near the Maine Mall, and with only 151 retail stores in the US, this speaks volumes about the validity of Greater Portland's retail market on the national level.

The southern Maine industrial market will continue to see low vacancy rates and slightly higher lease rates. Small to medium sized businesses have been driving this sector. With vacancy rates in all sectors low, we see businesses that you might expect in a more retail environment, choosing to upgrade industrial space in search for lower lease terms. A good example of this is 121 Hutchins Dr. in Portland. Boasting 13,340 s/f of wide-open industrial space, a loading dock and overhead door, this property could be used by a number of manufacturing or light industrial uses. However, due to lower than average ceiling heights, it did not measure up for a lot of users to other inventory that

was available. This space has now been fully leased and will be opening soon as a Doggy Daycare. Multifamily sales continue to increase in Portland. We will continue to see strong sales in 2015 with buyer demand exceeding supply. Rental rates will continue to increase in the Portland area while rents in other towns should remain stable.

As we move forward into the 1st quarter of 2016, we forecast that all sectors of the commercial real estate market in southern Maine will remain strong. The investment market will continue to thrive, land interest and new construction will increase, lease rates will continue to move up with more competition in the marketplace, and vacancy rates will decline.

Mike Cobb is a broker and partner at Cardente Real Estate, Portland, Me.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540