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# Maine is healthy and vibrant. However, in certain sectors the limited inventory is inhibiting business - by Justin Lamontagne

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In Southern Maine we have an inventory problem. An inventory shortage problem, that is. During the recovery, there has been a steady flight to quality in all sectors. As a result, Class-A office, industrial and retail vacancy rates are strikingly low. In some sectors, particularly industrial, Class-B & C style spaces are also experiencing historically low vacancies.

Accordingly, the limited inventory has increased both lease rates and sales pricing for all high-end asset classes. Lower end spaces are being looked at as value-add plays by bullish investors. We have seen several examples of repositioning antiquated properties without any real utility into alternative uses. As Greater Portland thrives, secondary markets like the mid-coast, York County, Lewiston/Auburn and Augusta, are primed to take advantage of the spill-over. Several of our Portland based clients are expanding their geographic search requirements to account for the lack of product nearby.

New construction is finally happening in 2017, adding much needed inventory. The first speculative office building in years is set for completion later this year and is already 2/3 leased up. That property is on Middle St. in Portland's famed Old Port peninsula. That area particularly, has seen an incredible spike in investment activity and development. Other office and retail projects have broken ground throughout Greater Portland within the last year, and more are planned.

Several speculative industrial projects are being built and marketed in Saco, Gorham, Scarborough and South Portland. I expect that over 150,000 s/f will be added to that sector's inventory in 2017. That means busy contractors, architects, engineers, brokers, attorneys, bankers, etc.

New projects do, of course, require higher lease rates, which the market is starting to support. I predict lease rates will continue to climb for at least another year or two. And the added inventory will finally slow our plummeting vacancy rates. Anecdotally, our industrial clients still prefer to buy existing buildings when possible. We have advised them to be ready to jump when opportunity arises and be willing to pay a premium in order to win a deal. Therefore, I predict sales price per square foot will again rise, and the gap between existing and new construction costs will continue to shrink.

An important caveat to all of this is the still unknown impact of recreational cannabis cultivation and retail sales. This industry continues to evolve at break neck speeds. And municipalities and state regulators are doing their best to keep up. Many towns have put moratoriums on any new grow/manufacturing spaces. All of them have serious questions and concerns with retail sales and “social clubs”. All of this comes to a head in the coming months as the legislature works on these important issues. There is no doubt that Maine’s commercial real estate landscape will be heavily impacted.

So the state of the State is, in general, very healthy and vibrant. However, in certain sectors the limited inventory has become inhibiting to business growth and relocation. We are hopeful that the new development we’ve seen will continue and the real estate pressure on current end-users will ease.

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