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Analysis and predictions for industrial property owners - by Justin Lamontagne

February 02, 2018 - Northern New England

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Ten years ago, industrial property owners were reeling from the recession and mired in a long-stagnant market. There was a desperate need for positive activity. Gradually, we started to see improvement. Our Maine-based companies began to grow and expand. We saw the rise of impactful new industries like craft brewing, small food/drink producers, private fitness clubs and medical cannabis cultivators. By 2011, property owners got their wish. Vacancy rates plateaued and then dropped. Lease rates began a slow up-tick. Interest in purchasing property increased and, along with it, sale prices spiked. For roughly four years, we had a healthy, balanced and transactional market.

But more recently I noticed a change. An incessant demand for industrial space intersects with an ever-decreasing supply. I originally called it “pressure on the market.” And then “inhibiting to business.” Today, I can think of no better description than “situation critical”. The data herein reflects far more than an interesting trend or anomaly. I believe this is an economic development crisis. Without respite, Southern Maine cannot compete for new business or support our own unless we can dramatically correct the scarcity of industrial real estate.

For the seventh consecutive year, vacancy rates have dropped. Today there is only 232,873 s/f of industrial real estate available in Greater Portland, Saco and Biddeford. With 566 buildings totaling 18,638,496 s/f that equates to a mind-boggling vacancy rate of 1.25%. While this is good news for those few, lucky property owners, there are hundreds of companies looking to expand or relocate in Greater Portland. Our buyer/tenant clients are often faced with multiple offer and off-market situations. We implore our clients to remain patient, flexible, communicative and, most important, be aggressive when opportunity arises.

Sale and lease pricing has skyrocketed. Lease pricing has taken a dramatic jump from last year, and we are now regularly seeing industrial rates exceeding \$6.50/SF NNN. Our sales transactional volume was down in 2017, but this was solely due to a lack of motivated sellers. As a result, any sale listing we did secure moved quickly and for a premium. We are now regularly selling quality industrial buildings in the \$65/SF range with peak pricing as high as \$80/SF. This is nearly double

the pricing during the recession.

There is some good news. With increased lease rates, it is likely we will continue to see new construction. In fact, in 2017, there has been at least 200,000 s/f of new construction projects. But, of that, only 30,000 s/f remains available as of the date of release of this report. I anticipate further industrial construction and absorption in the coming year. And because industrially-zoned land is limited, I also expect interest in repositioning and redevelopment of existing buildings. In particular, I predict the turnover of big-box retail into light industrial and distribution spaces.

My goal for this year's Industrial Market Survey is to highlight the economic strain in Southern Maine caused by the paucity of industrial real estate. The lack of bricks and mortar for light and heavy industrial businesses has reached a critical tipping point. We must increase inventory and support business owners, local developers and state leaders willing to join in these efforts.

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