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Southern Maine's commercial real estate market remains strong and steady

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Matthew Cardente,
Cardente Real Estate

Last year marked yet another solid year for southern Maine's commercial real estate market with early signs suggesting that the office, industrial, and retail sectors will remain healthy through the 4th Quarter of 2018. Key indicators include low vacancy rates, high commercial sales demand, and the continuation of active and proposed new commercial construction in greater Portland.

Southern Maine's Office Sector

Southern Maine's office market set new records in 2017. Per CBRE, The Boulos Company's 2018 Office Market Survey, the overall vacancy rate was 4.41% in 2017 versus 6.17% in 2016. This is the lowest vacancy rate for office space since 2006. Nate Stevens of CBRE, The Boulos Company noted that while the Downtown Portland vacancy rate increased slightly in 2017 to 6.93% versus 6.60% in 2016, the suburban office vacancy rates dropped significantly from 6.53% in 2016 to 3.41% in 2017. Additionally, there is over 300,000 s/f of new office construction currently permitted or planned for 2018 in Portland.

The southern Maine office market with an emphasis on class A product should continue to thrive in 2018. In January, AMEC Foster Wheeler inked a new lease at Ocean Gate Plaza at 511 Congress St., Portland for 41,718 s/f of class A office (brokered by James Harnden of Harnden Commercial Brokers and Matthew Cardente of Cardente Real Estate). Additionally, we are seeing office users expanding their rentable square footage or are buying properties to occupy while interest rates are still low.

With new office construction being introduced to the marketplace, vacancy rates may rise slightly by year end to account for the absorption of the new product and/or existing product vacated by tenants who are relocating. I often call this "musical chairs," as many leasing transactions for office space in greater Portland are Maine tenants relocating within the marketplace versus new businesses coming to the market from other states. Also, when supply is added to a market, less attractive class B office space tends to be the first to vacate.

Southern Maine's Industrial Sector

NAI, The Dunham Group, a commercial brokerage firm based out of Portland, Maine, provides an annual Industrial Market Survey for Greater Portland. Based on their 2018 Survey and a market size of 18,638,496 s/f, the industrial vacancy rate was at 1.25% in 2017. In 2016, the vacancy rate was 2.32% based on a market size of 18,260,479 s/f. Not only was 378,017 s/f of industrial space added over the year prior, the vacancy rate dropped by 54% from 2016 to 2017. With such low inventory, greater Portland industrial lease rates and sales prices have continued to increase annually for over five years now; currently averaging just below \$7 per s/f NNN for lease transactions and \$60 per s/f for industrial sales. "Industrial lease rates in the Greater Portland for 2017 have increased by an average of almost one dollar per s/f from 2016," said Justin Lamontagne of the NAI, the Dunham Group. "And the average industrial sale price in 2017 has increased by an average \$20 per s/f since 2011."

Southern Maine's industrial market should remain a strong commercial sector through year end and into 2019. While the industrial vacancy rate may increase slightly with new inventory, lease rates and sale prices should either maintain at current levels or continue to rise even higher over prior years.

Southern Maine's Retail Sector

2017 was an interesting year for Southern Maine's retail sector. Per Malone Commercial Brokers 2018 Retail Survey, the retail vacancy rate was at 5.07% in 2017 versus 3.44% in 2016 making last year the highest retail vacancy rate since 2012. Additionally, Malone's Survey shows a net absorption of 9,857 s/f of Greater Portland retail space in 2016 versus (104,577) s/f in 2017. However, several significant transactions that occurred in 2017 could be indications that the retail sector will continue to remain healthy. The 50,000 s/f big box at the Falmouth Shopping Center in Falmouth was re-tenanted at the end of 2017 after being vacant for many years. Ocean State Job Lot leased the majority of the vacancy and Planet Fitness occupied the balance and both are now "open for business." In 2017, Ocean State Job Lot also purchased the 55,900 s/f former Shaws Supermarket at 510 Alfred St., Biddeford. Vacant since 2015, this 8.45 acre property sold for \$3.925 million and was brokered by CBRE, The Boulos Company.

The retail sector for Greater Portland should remain sound in 2018. New retail construction is ongoing including a 550,000 s/f retail development on Rte. 25 in Westbrook that will be tenanted by Hobby Lobby, Market Basket, Starbucks, and others. While average retail lease rates may decline slightly this year, my prediction is that the retail vacancy rate will not exceed 6% by year end. Additionally, retail investment sales will continue to be in high demand.

Overall, southern Maine's commercial real estate market remained strong and steady through year-end 2017 and there are no significant signs of a slowdown to the market for the balance of this year.

Matthew Cardente is owner/designated broker of Cardente Real Estate, Portland, ME.

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