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Southern Maine's commercial real estate market — holding strong - by Matthew Cardente

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Southern Maine's commercial real estate market was healthy through 2018. Investment sales remained strong with continued low interest rates and area competition. However, there was a slight slowdown in the 2018 leasing market with vacancy rates increasing modestly for two of the major commercial sectors in Greater Portland. While still being at reasonably healthy levels, some indicators suggest vacancies will remain flat or even tick slightly higher at the close of 2019. Our sales forecast for quality investment and owner / occupant commercial product remains extremely bullish through 2020 based on the limited supply and high level of demand by local and national investors.

Southern Maine's Office Sector

Per The Boulos Company's 2019 Office Market Survey, an annual survey tracked by Boulos for over 25 years, the direct vacancy rate was at 3.94% in 2018 versus 4.41% in 2017. "This is the sixth consecutive year with a drop in the vacancy rate and the lowest since 2002 when the rate was 3.04%," said Nate Stevens of The Boulos Company.

A slight uptick to the office vacancy rate is anticipated for 2019 but office continues to be solid sector.

Several notable leasing transactions for office include the 170,000 s/f lease to Vets First Choice/Covetrus at 12 Mountfort St., Portland brokered by The Boulos Company, the 100,333 s/f Maine Health lease at 222 Saint Johns St., Portland brokered by Malone Commercial Brokers, and the 42,271 s/f Stone Coast Funds lease at One Canal Plaza, Portland brokered by Porta & Co., and Malone Commercial Brokers.

Greater Portland office sales also continued to boom in 2018. Brokered by The Boulos Company and The Dunham Group, the 35,910 s/f office building at 50 Monument Sq., Portland sold for \$4.25 million. Last October, the Time & Temperature building at 477 Congress St., Portland sold for \$9.3

million at auction after a bidding war. Auctioned by RealINSIGHT Marketplace and brokered by Colliers International and Cardente Real Estate, this sale included 157,492 s/f of buildings and a 340 car parking garage on 1.86 +/- acres.

Southern Maine's Industrial Sector

Per NAI, The Dunham Group's 2019 Industrial Survey, the industrial vacancy rate for 2018 was 3.47% for Greater Portland versus 1.25% in 2017. While still a healthy vacancy rate, Justin Lamontange of Dunham contributes the slight downturn in part to more market supply of comparable properties, less than anticipated 2018 cannabis transactions, and a slight dip in lease rates. Lease rates were pushing \$7.00 per s/f in 2017 and are now lingering in the \$6.50 per s/f range. On a sales basis, industrial market like the other sectors has remained strong. Capitalization rates for quality industrial investments are selling for under 8.5%.

While there is a potential for a slight slowdown in the Greater Portland industrial market for 2019, this is still in a very healthy sector and should remain positive through year-end and into 1st Quarter 2020.

Southern Maine's Retail Sector

2018 marked the first increase in Greater Portland vacancy rates for Southern Maine's retail sector since 2013. Per Malone Commercial Brokers Annual Retail Survey, the retail vacancy rate was at 5.02% at 2018 year-end. While still relatively healthy, the rate increased close to 1.5 points higher than the 3.44% vacancy rate in 2017 and was $\frac{3}{4}$ +/- points higher than 2014s rate of 4.29%. Several 2018 closures to the market including Toys "R" Us, Sears, Abercrombie & Fitch in Freeport, among others. However, we continue to see a demand in the major markets from new national tenants such as Duluth Trading Co. who opened their first flagship location in South Portland. Additionally, there is an ongoing demand for small to midsized units ranging from 2,000 – 5,000 s/f.

Retail / mixed use investment sales remain hot like the other sectors in Greater Portland. Notable transactions include the 204,000 s/f Falmouth Shopping Center situated on 33 acres that sold for \$21 million in May 2018. Anchored by Shaw's Ocean State Job Lot, the transaction was brokered by Compass Commercial Brokers. In June 2018, Lower Falls Landing in Yarmouth sold for \$5.4 million. Consisting of a 41,000 s/f complex with a mix of retail, a restaurant, office space, and a marina on the Royal River was brokered by Cardente Real Estate.

Overall, Southern Maine's commercial real estate market remained healthy in 2018. With strong GDP growth, continued demand by investors in the marketplace, and strong probability of no interest rate hikes, 2019 commercial marketplace should remain strong through year end.

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