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Southern Maine's commercial real estate market steady through third quarter 2019 - Matt Cardente

October 25, 2019 - Spotlights

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Southern Maine's commercial real estate market has continued to show strength through the 3rd quarter of 2019. Sales demand remains high and there continues to be a limited supply of quality product in the marketplace. This has been an ongoing trend for several years now and investment sellers are capitalizing on it. While in December of 2018, interest rates were on the rise with concerns that the trend would continue, since last August, interest rates have decreased by 25 basis points twice within a two month period. With decreased rates, buyer competition continues to dictate the investment market as well as for owner occupants looking to own versus lease. Additionally, vacancy rates remain low in all commercial sectors in Southern Maine and lease rates are holding steady with some sectors seeing price increases. Current indicators suggest that we will end the year on an upward trend with no immediate signs of a significant slowdown in the Southern Maine commercial marketplace into 2020.

Predicting the peak of the commercial real estate market in Southern Maine has become increasingly difficult to forecast in recent years. New construction continues with new proposed projects in the pipeline. The industrial market that was once stagnant in the mid 2000s has seen a resurgence in recent years with product being absorbed by new types of users that were previously non-existent. A new tenant / buyer classification not only provides more competition in the marketplace but some such as the cannabis and brewery industries; are extremely active in the market and are willing to pay a premium for quality industrial space. By default, these added classifications increase demand and drive up pricing for other industrial users seeking space in the same vicinities.

Retail used to be a sore topic starting in the mid 2000s when we started seeing the closures of major big boxes along the Maine Tpke. corridor and off I-295 in Southern Maine. Additionally we saw big box operators leaving locations to expand elsewhere in the same vicinity. Re-tenanting such large retail vacancies in a smaller retail market like Maine proved to be a challenge with some staying vacant for years. However, discount retailers deemed the dark boxes as an opportunity to

acquire highly visible locations. One of my favorite examples was the “local/international discount Retail Move” near the Maine Mall. In 2009, Wal-Mart almost doubled their footprint opening a newly built 208,000 s/f super store on Gallery Blvd. in Scarborough while leaving their former facility vacant. Marden’s, Maine’s local discount store, ended up absorbing the 119,000 s/f facility creating their largest store in Maine to date (Marden’s new building was originally built in 1992 to accommodate the first Wal-Mart to ever open in Maine). More recently, discount retailer Ocean State Job Lot entered Maine occupying dark boxes locations with long-term vacancies. At the end of 2017, Ocean State Job Lot occupied the majority of the 50,000 s/f former Shaw’s at the Falmouth Shopping Center and in March of 2018, Ocean State Job Lot opened their 40,000 s/f Biddeford store, also formerly Shaw’s. With less large scale retail construction underway and more specialty small scale development, retail has maintained at a healthy level this year with less new supply being added to the marketplace.

The commercial office sector has continued to boom as well. While the data is not out yet from The Boulos Company’s long standing annual office market survey that is released every January, their data from earlier this year showed that the direct office vacancy rate for 2018 was at 3.94% marking the 6th consecutive year of a decrease in the vacancy rate and the lowest vacancy rate for Greater Portland since 2002 when it was at 3.04%. Even if we see a slight increase in next year’s report by The Boulos Co. who has now provided data annually for over 25 years, we continue to see healthy office market in Southern Maine. Additionally, asking lease rates for quality office space remains stable with some rates in the primary markets increasing and there is continued competition by office tenants within these areas.

Demand for parking has been an ongoing need in downtown Portland with recent new construction and proposed development of parking garages in the city. In August, the newly constructed 300 vehicle Arts District Garage located off of Congress St. and abutting Ocean Gate Plaza opened. Accessed via Cumberland Ave. and Casco & Brown Sts., this is the latest parking garage to be built of the 16 located in downtown Portland. The move to build this Arts District Garage would not only facilitate the parking needs of Ocean Gate Plaza office tower tenants, it negated the need to seek additional parking from third party garages in the immediate area due to lack of surface parking that was on the site prior. On October 9th, a 1,000 vehicle garage with 24 housing units, 27,700 s/f of office space, and 5,600 s/f of retail was proposed to be built on the city block abutting Spring, Fore, Cross, and Cotton Sts. This garage would provide parking to accommodate a 10-year master development plan. Between the current density of businesses in downtown Portland and new commercial space being introduced to the market, the increase in parking supply is deemed a necessity and an amenity. Monthly parking rates have continued to increase almost annually every year due to such high demand with some garages currently have waiting lists in excess of a year.

The investment market maybe the hottest commercial sector in Southern Maine. Demand for investment properties and portfolios has been difficult for area commercial real estate brokerages as the supply is just so low. Compared to other primary markets, Maine’s capitalization rates tend be higher; attracting local, regional and national investors. With modern technology and the use of “in house” or local management, the location of an investor is less applicable making Maine’s investment sector competitive on a national basis. With such a large pool of investors seeking

investment grade product and low interest rates for those seeking financing, Maine's investment market should remain dominant for the foreseeable future.

While we continue to see a strong overall commercial market in Southern Maine through the end the 3rd quarter of 2019, it would be reasonable to assume that some sectors may level off a bit over the next year and vacancy rates increasing slightly. However, with a strong economy, area and national competition, and no immediate indication of a significant rate hike (maybe even another rate decrease), the commercial real estate market through year end 2019 remains extremely bullish.

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