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Maine's commercial real estate activity is extremely sector and industry specific - by Justin Lamontagne

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How's the market? It is the most common question asked of any commercial broker in these trying times. And, most often, the answer is "...depends". Sector segmentation has never been so dramatic.

Industrial

The industrial sector in Maine is thriving through COVID. Manufacturing, warehousing and distribution are proving essential. And examples abound of industrial companies pivoting in a positive way to provide much needed services and products on account of this pandemic.

At NAI The Dunham Group, we are pleased to present a mid-year update to our annual industrial market survey. Indeed, the statistics reflect a dynamic market and confirm our anecdotal and transactional workload. In 2020 we've added Falmouth to our survey and are now tracking a nearly 20 million s/f Greater Portland market including Saco & Biddeford.

Today, our vacancy rate holds steady at 2.79% and that includes the only significantly large vacancy in all of Greater Portland, a 167,000 s/f warehouse at 203 Read St. in Portland. That building is getting a lot of activity and, if leased, our overall rate will drop to a stifling 1.95%. And, practically speaking, because most industrial end-users are looking for smaller units, that sub-2% availability is what tenants and buyers are dealing with. We are hopeful these market conditions lead to long-awaited speculative development.

Sales demand for existing inventory remains at an all-time high. Bullish investors, both local and regional, are competing with end-users. This consistent and competitive demand has driven average sales prices towards \$80/s/f with peak pricing well over \$100/s/f. It seems the volatility of the stock market and the uncertain economic outlook is driving investors to bricks & mortar. And, it stands to reason, no sector is better positioned to weather the COVID storm and prosper post-pandemic than industrial.

Of course, the great caveat to all of this is COVID itself and the still lingering long term ramifications. I've said to many clients, we're very much IN this. This pandemic is happening right now. It's never been harder to make projections or predictions because there are so many variables and possible trickle-down effects from this pandemic we haven't even considered.

The industrial market is proving COVID-resistant and the environment has never been more competitive. We see few signs of change in the near-term but this pandemic is truly unlike anything we've ever seen. It would be irresponsible to say the industrial market is immune to the effects of this crisis. But so far it sure is putting up a good fight.

Office

I would call the office market in Maine...tentative. There are some office end-users who are cautiously moving ahead with office expansions or relocations. And others, probably the majority, who are choosing to stay on the sidelines until we have more clarity on the future of office-use. I'll repeat the simple, and challenging fact that we are very much in this pandemic. To prognosticate or project how a large company will use their office space over the next 10 years has never been more difficult. So committing to long-term leases in this environment is causing pause for many decision makers. As an office broker, most of my conversation with tenant-clients of late have been about rethinking office impacts, layouts, employee schedules, etc. Whether or not office footprints shrink remains to be seen. But I believe how we use offices will change post-COVID, regardless.

As such, there are several large vacancies freshly on the market or soon to be. And this is the case in both downtown Portland as well as the Greater Portland suburbs. While the statistics aren't out yet, anecdotally it's clear we are facing increasing vacancy rates and, in time, decreasing lease rates. Demand is there but it's inconsistent and, like I said, tentative.

Retail

Personally, I don't broker much retail. But it doesn't take more than a drive around the Maine Mall, Freeport's shopping district or Portland's Old Port to gauge the health of the sector. For lease signs are popping up consistently and every day the news presents an updated list of popular haunts closing. Of course, there are success stories. Several restaurants that have the infrastructure are getting by on curbside pick-up, delivery and outdoor seating. And our famed craftbrew-scene has discovered that curbside pick-up doesn't just work, consumers love it and will demand it post-COVID. How sustainable all this is remains the biggest concern. And for many, those types of innovations are just not possible. For those that cannot or choose not to change the way they do business or present their products, the outlook is dire.

In summation, Maine's commercial real estate market is seeing action, some positive and more negative. And the activity is extremely sector and industry specific. Despite our relative success in keeping COVID cases at bay, we are not immune to the economic costs of winning that battle. Maine's resolve has never been tested like this but as a life-long Mainer, I am confident we'll continue to help our neighbors and work through this crisis together.

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