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Maine market snapshot: “Bump in the road” is a sign most Mainers have seen many times before - by Sam LeGeyt

October 30, 2020 - Spotlights

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“Bump in the Road” is unfortunately a sign that most Mainers have seen many times before. As Mainers we’re not uncomfortable with it, because we know that things in Maine rarely swing too far from our realm of comfort. Although there are certainly uncomfortable situations ahead, most likely in the office and retail markets, hopefully they are just bumps in the road and not major detours.

Industrial

The Maine industrial market continues to burn very HOT! Vacancy is still quite low (~2%) and lease pricing remains on the rise with new construction options topping the market around \$12 per s/f NNN.

With strong online retail sales and a commitment to replenish stockpiles of inventory, materials and equipment, industrial real estate demand is steady on both the leasing and sales side.

Smaller tenants (10,000 s/f and under) are struggling to find new space prior to current expiration dates. I completed an inventory search for a client just yesterday looking for 3,000-5,000 s/f in Northern York and Southern Cumberland County and only three results populated in both for sale or for lease options. This trend is leading tenants to renew in place at much higher rents since their most recent renewal.

Sales pricing in Southern Maine is still tipping the scales at around \$100 per s/f for quality class A product. Both owner users and investors are still fighting for deals and although credit scrutiny has tightened, we are still seeing owner users win deals using both traditional and SBA-504 financing.

Office

The office market in Southern Maine is on the brink of a turning point. The final impact of this pandemic is, of course, impossible to know today. However, when we look around at parking garages in downtown Portland, most aren't even half full during a normal week day. In early February there were waiting lists in almost every single garage and lots downtown, and the lack of available parking was a major impediment of doing office deals. In late 2019 and early 2020 we saw a couple of big users sign leases in the suburbs for this reason.

The pandemic has dramatically shifted that trend. Some office users are excited to get back to the office, and some are very content to continue to work from home. But the bottom line is that long-term decision making is proving very difficult for business leaders. As a result, we are seeing a shift of leverage from landlord's to tenant's. Good office tenants will be held in higher regard and value as we move forward and any tenant willing to sign a long-term lease will find even more value with an educated landlord. I expect tenants to be able to demand concessions (TI allowances, free rent, etc.) that they haven't in years, if they can prove to be a financially sound and viable tenant.

Although there is a change in leverage, we have yet to see pricing drop in the office market. Given the conditions, however, I think it's fair to assume that will change soon.

Retail

Retail tenants are struggling locally and the uptick in online sales is hurting foot traffic for all retailers and restaurant users. Although bars and pubs are very recently allowed to reopen in Maine under Phase 4 of the reopening plan, allowed occupancies are down. And the weather is turning to winter, which will shut down outside dining that has been holding up many of our local favorites.

We very well may see a cultural change in the city of Portland and Southern Maine. With an easily walkable downtown and exciting waterfront, Portland is a city that draws tourists for food and drink style vacations. Depending on how the winter goes we may cease to have as many food and drink options as we did previously.

Not only is COVID-19 impacting these local retailers, restaurants and bars, but political questions appearing on the ballot in Portland may also have negative effects on the retail and food service industries. Particularly concerning is a \$15/hour minimum wage proposal that would also require business owners to pay time and a half whenever the city or state declares a state of emergency. This proposal will very likely hurt the small businesses it set out to help.

Multifamily

Multifamily sales and opportunities in Southern Maine are still attracting investors from all over the country. Sales on four-unit buildings or less continue to move quickly as we see more and more people moving here for the quality of life and seemingly easier urban COVID-19 lifestyles versus that of a New York, Washington D.C. or Boston. The number of larger deals (4 units and over) has slowed over the past year due to a lack of inventory, although demand is still high. Lease pricing is mostly flat, although there is a flight to quality products, with most demand coming from new

Mainers.

In Southern Maine we have much to be thankful for and many opportunities to be looking out for as we approach the holiday season. At the same time we have to prepare for the likely bump in the road ahead for many of us.

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