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Southern Maine's commercial real estate market - A look back and now - by Matt Cardente

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In early February of 2020, I wrote an article stating that “While several sectors may see a slight uptick in vacancy rates, the leasing market should remain competitive... through year end 2020.” Several months later, the world found itself in the midst of a pandemic and my forecast was wrong. No one could have predicted the global health crisis that would follow for the next 1 ½ years. However, even during the complete shutdown, there remained demand for commercial real estate in the Southern Maine market; it just depended on the type of use. In the spring of 2020, Federal Express executed a long-term lease for their 34,000 s/f distribution facility in Portland. Without distribution, people staying at home wouldn't receive packages. Manufacturing facilities required commercial space for production. Those grocery and full-service retailers that remained open, still needed a physical structure to house and sell their product. Hospitals, pharmacies, banks, post offices, and many other types of uses, all needed a commercial footprint even during the pandemic.

In the midst of the pandemic, companies modified their operations to provide products that were in demand and did so in commercial space. Brewers made hand sanitizing lotion and others converting equipment to make masks. As Maine and the country started to open, business found creative ways to reintroduce customers to their physically located establishments. Restaurants offered outdoor seating; some using vented tents with heaters. Quick service food operations that have drive thru were able to provide customers with a more “hands free” experience even incentivizing payment with phone apps versus the use of credit cards or cash. Retailers did curbside pickup, modifications to egress and distancing in stores, employee safety protocol. The office sector went from being fully satellite to some providing social distancing workspaces and sanitization protocol for their employees. On some level, all commercial real estate sectors in Southern Maine functioned during 2020. Now, the streets are packed again in the Old Port of Portland but we have all gone through an experience that has taught us how to adapt; as has Maine's commercial real estate market.

(Pending the unpredictable) As we head into the 3rd quarter of 2021, we see a continuation of strong growth in the Southern Maine industrial, retail, and housing sectors through at least early 2022. Additionally, buyers will continue to compete for low risk & class A investment properties as

will owner / occupants utilizing the still historical low interest rates. New construction and redevelopment should continue to boom; especially for uses that were functioning in 2020 (distribution, full service retail, pharmacies, banks, quick service food operations, (amongst others). If interest rates tick up combined with long-term inflation, some upcoming construction could be priced out. However, materials costs such as lumber have dropped 60% since its all-time peak in May.

One area of concern is the office sector in Southern Maine. Greater Portland's office market continues to struggle due to closures and remote working caused by the pandemic. Specifically, office space over 5,000 +/- s/f. As of mid July, 2021, there were 90 lease listings in Portland for office over 5,000 +/- s/f in size with almost a third of them being over 20,000 s/f. In downtown Portland alone, there is 84,000 +/- s/f of office available for lease at 3 Portland Sq., 40,857 +/- s/f at 100 Middle St., 60,000 +/- s/f at 300 Fore St., 40,000 +/- s/f at 170 Fore St., 50,213 +/- s/f at 465 Congress St., to name a few (according to NECPE on 7/20/21). The absorption of large office space may be a continuing problem until if and when employees return to the office versus working via satellite. However, having a physical presence is both healthy and productive for most companies and smaller office spaces remain in demand on both a lease and sale basis. The subdivision of the larger office vacancies may help reduce the current supply.

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