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Mid-year industrial and office update for Southern Maine and Greater Portland area - by Justin Lamontagne and Sam LeGeyt

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Mid-year Industrial Update

The Greater Portland overall industrial vacancy rate dropped below 2% for only the second time ever, continuing a decade long bull run in the industrial market. NAI The Dunham Group has produced a mid-year update to the annual Greater Portland Industrial Market Survey. The statistics as of July 1, 2021, are astounding and confirm our anecdotal and transactional workload.

Today the vacancy rate for over 20 million s/f of industrial space is a paltry 1.97%. This is the first time since a very short period in 2017 when inventory has been so low. In the first two quarters of 2021, over 250,000 s/f of space was absorbed. Much of that can be accounted for by a small handful of large buildings being occupied, most notably 203 Read St. in Portland. That 167,000 s/f building was fully leased to Bath Iron Works, removing from the market the only vacant building in all of Southern Maine over 100,000 s/f.

This lack of larger industrial space has stifled several other big end-users who are now forced to consider new construction or pivot production in order to wait out this space-crunch. Further proof of this is the leasing of 85,640 s/f at 1 Eagle Dr. in Sanford to Volk Packaging, a company headquartered in Biddeford. Sanford was not originally within Volk's search parameters but the quality building, affordable lease rate, business friendly environment and a closer study of logistics made the property an ideal fit.

As you would expect, when the supply and demand scale is so dramatically weighted in the direction of property owners, lease and sale pricing continues to rise. Most quality industrial spaces and parks are averaging over \$8 per s/f NNN with several examples of peak pricing nearing \$12 per s/f NNN. These rates are comparable to the office market and gaining ground quickly as the two sectors are on opposite trajectories.

Sales demand remains historically high as investors and owner/users compete and continue driving pricing up. Average sales prices are in the \$75-85 per s/f range, depending on size and quality. And many industrial buildings are selling well above that. The industrial sector not only proved pandemic-proof, but the pandemic itself actually exacerbated the importance of industrial work. Essential businesses like food production, product warehousing and shipping, domestic manufacturing of PPE and general goods, got us all through this terrible year.

In summary, what was already a competitive landscape thrived through what was otherwise a challenging 2020. And today, half-way through 2021, we face the same challenges as we have for the last decade: limited supply, steady demand, rising lease and sales pricing and wary speculative development. We continue to coach our end-user buyers and tenants to remain patient, be creative, be flexible but, at the same time, aggressive when opportunity strikes. It's an owner's market and there are no signs of that changing.

Mid-Year Office Update

Over the last 16 months many have contemplated, hypothesized, or even hoped for, the death of the office market. In Southern Maine and specifically Portland, the office market has been stagnant but certainly not dead or dying.

In comparison to Boston or New York, Portland doesn't see the drastic highs and lows of a primary market. Things are much more stable, and although we have seen lease term length go down over the course of the pandemic, pricing remains very similar to pre-pandemic levels. What used to be a standard 5–10-year lease term has more typically been 1-3 years in length, in order for both local

businesses and corporations to be able to make decisions based on what post pandemic office space looks like. In the last 4-6 weeks we have seen multiple tenants that pursued 1-year COVID-19 renewals, return to the market looking for longer term deals.

The other recent trend that we are seeing is the uptick of demand in small spaces, both downtown and in the suburban markets. Many users, and in particular those continuing to work from home, are flooding the market, for spaces to escape the home office.

Similarly, to the leasing market, pricing has stayed consistent in the sales market in and around Greater Portland, however, the number of sale transactions has dropped in the office market over the last year and through the first half of 2021. In some instances, I think this can be attributed to the shorter terms of new or renewing tenants inhibiting investment sales, and owner-users that are fearful of what the next 12-18 months will bring to their business.

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