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The Dunham Group’s mid-year update reflects a strong landlord and property owner’s market - by Justin Lamontagne

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Justin Lamontagne

The Greater Portland industrial vacancy rate has risen slightly in the last six months to 2.28%, up from a paltry 1.69% at the close of 2021. The Dunham Group is pleased to present our mid-year update to the annual Greater Portland Industrial Market Survey. The statistics as of July 1, 2022, continue to reflect a strong landlord and property owner's market. But the slight uptick suggests some opportunity for end-user tenants and buyers.

Our total inventory pool continues to grow, albeit slightly. The total market size in Greater Portland is now 20,700,000 which includes Portland, South Portland, Falmouth, Gorham, Westbrook, Scarborough, Saco and Biddeford. The uptick in vacancies can be attributed to new construction as opposed to a slowdown in demand. The Innovation District at Scarborough Downs, for example, has added over 250,000 s/f of new buildings and there are some vacancies in the speculative projects that are going up. But with steady interest and demand, I don't expect those vacancies to last long. Another successful speculative development was the 140,000 s/f Calare project in the Saco Industrial Park. They were able to fully lease the building during construction and won the deal because their timing schedule was ahead of other sites where no speculative planning or construction had begun.

Despite the increased vacancy rate, there is still a critical lack of larger buildings available. At the time of this report, there were only two buildings larger than 50,000 s/f available in Greater Portland, and none larger than 100,000 s/f. This lack of larger industrial space has stifled several big end-users who now have no choice but to consider new construction or pivot production to wait out this space crunch. And, because of the success at the Innovation District, other industrial developers are now offering land sites that are more "pad ready". End-users are willing to pay a premium for land if it comes with utilities stubbed, DEP approvals, road infrastructure, etc. These are critical pieces to a development that save time and get the dirt shovel ready.

Pricing continues to escalate dramatically. We are now regularly topping $9.00 per s/f and see several examples of peak pricing at or above $12.00 per s/f NNN (for smaller, high-quality spaces). 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 to drive pricing up. Average sales prices are in the $90.00-$100.00 per s/f, depending on size and quality. And many industrial buildings are selling well above that. Demand is coming from several industries, including pandemic-proof essential uses like manufacturing, shipping, warehousing, etc. The construction boom is also creating demand for industrial space as we are seeing building supply companies grow dramatically. One area that we are beginning to sense some trouble is the recreational and medical cannabis sector. There are several smaller grow operations that have recently closed or looking to downsize. And, anecdotally, we are simply getting less calls for the industry than we used to.

In summary, what was already a competitive landscape continues to thrive, but with some possible signs of a slowdown. Generally, we face the same challenges as we have for the last decade: limited supply, steady demand, rising lease and sales pricing and not enough speculative development. But with added inventory, a slowing economy, rising interest rates and the end of the cannabis-boom, we may see a change in the industrial market. Right now, it’s an owner’s market but, for the first time in years, maybe there’s hope for tenants and buyers on the horizon!

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