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Annual Southern Maine industrial market survey: Statistics show robust market favoring owners - by Justin Lamontagne

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Justin Lamontagne

The Greater Portland industrial vacancy rate has remained relatively stable since the last report at the end of last year, with a modest increase of 14 basis points to reach 1.91% as of July 1, 2023. The Dunham Group is pleased to present our mid-year update on the annual Southern Maine industrial market survey. The current statistics still indicate a robust market favoring landlords and property owners, although we did mention earlier this year that there are promising signs for tenants and buyers.

Our total inventory pool continues to grow, albeit slightly. The total market size in Greater Portland is now 20.9 million s/f which includes Portland, South Portland, Falmouth, Gorham, Westbrook, Scarborough, Saco and Biddeford. The uptick in inventory can be attributed to new construction and a slowly developing new trend, conversion of office to industrial space.

The repositioning of office and retail into light industrial is fascinating to consider. No commercial real estate asset was hit harder by the pandemic than the office market. Large swaths of open office space sit empty in the Greater Portland suburbs and some, particularly first floor spaces, are prime for industrial conversion. As we once saw with large, big-box retail conversions, so too I think we will soon see in the office market. And industrial lease rates are beginning to mirror and surpass office space rates. So it could be a real win-win for tenants and landlords alike.

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, as mentioned, 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 now north of $100 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.

However, there are some concerns emerging in the market. The cannabis cultivation space, particularly for medicinal purposes rather than recreational, appears to have been significantly affected. The oversaturation that we had long predicted is now becoming a reality. Every week, we witness new listings, typically under 10,000 s/f, advertising “cannabis friendly/approved” capabilities. The critical question arises: If there is a decline in cannabis demand, how can we repurpose cultivation-specific facilities, and what rental rates will traditional businesses be willing to pay?

Another concerning theme we continue to track is the critical lack of larger buildings available. At the time of this report, there were only three buildings larger than 50,000 s/f available in Greater Portland and York County, 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. Wisely, industrial developers are now offering larger 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.

Furthermore, the industrial sector is facing macroeconomic strains such as construction costs, delays, rising interest rates, inflation, and general economic uncertainties. These factors are exerting downward pressure on the industry, potentially slowing down much-needed speculative industrial development. For quite some time, we have been advocating for additional speculative industrial development, but these overarching issues are likely to impede the progress in that area.

In summary, the industrial market continues to be highly competitive and thriving, but there are indications of a potential slowdown. We are confronted with familiar challenges that have persisted for the past decade: limited supply, steady demand, rising lease and sales prices, and insufficient speculative development. However, with the introduction of additional inventory, a slowing economy, rising interest rates, and the decline of the cannabis boom, we might witness changes in the industrial market. It is important to emphasize that it still remains a landlord's market, but there are glimmers of hope for tenants and end-users.

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