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Welcome to the Old Normal - by Justin Lamontagne and Sam LeGeyt

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Justin Lamontagne

Sam LeGeyt

The Southern Maine commercial real estate market is fine. Admittedly, that's a very vanilla descriptor, but it's accurate. Since COVID, our market, like many, has been going gangbusters with increasing values and demand across all sectors. We had record-setting years in '20, '21 and '22 with 2023 starting to stabilize. However, the incessant calls and demand have clearly slowed in 2024. But only in comparison to the last four years. The truth is it feels very 2019-ish. In other words, normal! The following is a summary and forecast of the industrial and office sectors in Southern Maine.

Southern Maine Industrial Market Summary by Justin Lamontagne

Our expanded industrial market survey now tracks over 30 million s/f in 15 cities and towns in Southern Maine. As of July 1, 2024 the total vacancy rate is a paltry 2.27%. This is up slightly since 1Q, but only a mere 30 basis points. Drilling down into sub-markets, the Greater Portland vacancy rate is stiflingly low at 0.69%. To put that in perspective, of a total 19 million s/f in nine cities/towns (a 10-mile radius), only 131,000 s/f is available (70,000 s/f in a single building!). This is a striking fact and, as I've reported previously, simply bad for business in the Portland area.

The lack of inventory is forcing businesses to consider alternate locations and, in some cases, that's out of state. While new construction and land development remain options, they are costly and time-consuming endeavors. Many users and brokers are considering creative repurposing of office and retail spaces. This trend has already begun with some small success stories. I suspect this

trend to continue and exacerbate.

Not surprisingly, industrial values, both for sale and lease, continue to appreciate dramatically. Sale prices now regularly top \$100 per s/f, and in some cases, at replacement values of \$150 per s/f or more. This proves that the often complicated and slow process of new construction is deterring end-users. And it further indicates that “shovel-ready” industrial land sites like the Innovation District at Scarborough Downs are the most successful model.

Lease prices are also on the rise, though not as dramatically as sale values. And, anecdotally, leasing activity has slowed. While the vacancy rates reflect a clear supply/demand imbalance, our phone and deal action suggest that may change slightly towards the end of the year. Most listed spaces on the market are now asking well above \$10 per s/f NNN, reaching as high as \$13-14/ per s/f for smaller units, surpassing rates for class B and low-A office spaces in many cases. This has led to sticker shock for industrial tenants, especially those new to the market or accustomed to years of rates near \$5-6 per s/f. This push-back from tenants is partially accounting for the slower pace in lease rate increases.

Southern Maine Office Market Summary by Sam LeGeyt

Although the activity within the Southern Maine office market feels steadier than the recent past, the numbers tell a story we have heard since the onset of COVID. In the first half of the year, the Greater Portland market has seen only 63 leases signed, the lowest number in our data set, tied with the fateful year of 2021. The average over the past 10 years YTD is around 94 deals done, almost 50% more than this year.

The challenge with data and comparables is that in analyzing them we are constantly looking out the back window when what is ahead is most important. In talking with other brokers and in my own travels, I am confident that most professionals feel cautiously optimistic about the general health of the Greater Portland office market and where it is headed.

The market has shown active demand for right sized properties both for lease and for sale, and even with the challenges of rising tenant improvement costs, and interest rates, deals are still happening. Purchasing demand from owner occupants has continued to drive the majority of sales in the office market, where investors have been more hesitant than in years past.

Although we are continuing to see corporate pullback in size and length of term of office leasing deals, in many cases, tenants are looking again for more room to gather, collaborate, and mentor their staff. TD Bank is a recent example of the pullback. They will be vacating over 350,000 s/f between Falmouth and Lewiston-Auburn over the next year and a half.

Landlords of spaces over 10,000 s/f are still competing hard for deals with tenant improvement allowances and other concessions, but in a market that is largely driven by the 3,000-10,000 s/f tenant, we remain cautiously optimistic. Small to medium-sized office tenants will drive our deal flow in the coming year.

Justin Lamontagne, CCIM, SIOR, is a partner/designated broker and Sam LeGeyt is a partner/broker with The Dunham Group, Portland, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540