Maine Feature: Welcome to the Old Normal - by Justin Lamontagne

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The Southern Maine commercial real estate market is doing just fine. Admittedly, that is not the most attention-grabbing start to an article, but it's the truth. Since the pandemic, like many other markets, ours has been on a strong upward trajectory, with increasing values and rising demand across all sectors. We saw record-breaking years in 2020, 2021, and 2022, and while 2023 showed signs of stabilization, 2024 has clearly marked a slowdown relative to the past few years. In fact, the market today feels much more like 2019 — balanced, stable, and, well, normal.

Specific to the industrial sector, our latest study now tracks over 35 million s/f of space across 17 cities and towns in Southern Maine. As of December 1, 2024, the overall industrial vacancy rate in Southern Maine is just 2.49%, up from last year's 1.93%. Breaking it down further, we observed a notable increase in inventory within the Greater Portland area, where the vacancy rate has risen to 1.96%, up from a record low of 0.66% in 2023. While this increase is a positive development for tenants, it's important to note that a sub-2% vacancy rate still makes it a tough market for businesses looking to expand or relocate. What's more challenging is that the majority of available space in Greater Portland consists of medium to large buildings, typically 10,000 s/f or more. For businesses seeking less than 10,000 s/f — i.e. most businesses in Maine — options within a 15-mile radius of Portland are virtually nonexistent.

Expanding our focus to sub-markets in Northern York County and Lewiston/Auburn reflect equally competitive areas. In Lewiston/Auburn, the vacancy rate has dropped from 5.78% last year to just 4.02% in 2024, the lowest rate we've seen in the area since pre-COVID. Much like Greater Portland, smaller spaces are in short supply here as well. In Northern York County, we've added Wells and Sanford to our report, which has made the data even more comprehensive. The total vacancy rate in this area is just 1.79%, the lowest of the three sub-markets we track. Anecdotally, the on-the-ground experience mirrors this data. I recently conducted a search for industrial space in the entire city of Saco and found zero immediate options. To put this into perspective, Saco is a premium industrial location with nearly two million s/f of industrial space spread across 70 buildings — and yet, I couldn't find a single opportunity for my client.

The lack of available inventory is pushing businesses to explore alternative locations, and in some cases, even out-of-state options. While new construction and land development remain viable, these projects are costly and time-consuming. As a result, many users and brokers are turning to the creative repurposing of office and retail spaces. This trend has already gained some traction with a few success stories, and I expect it to continue. For example, we recently began repurposing a former Burlington Coat Factory at the Jetport Plaza in South Portland. The property owners are marketing the front retail portion to smaller businesses, while we're converting the deeper back section with loading docks into light industrial and warehouse space. This is a perfect example of how repurposing older retail spaces can add value for both property owners and tenants.

Industrial values, both for sale and lease, continue to rise. Sale prices are regularly topping $100 per s/f, with some properties reaching replacement values of $150 per square foot or more. This trend highlights how the often slow and complicated process of new construction is deterring end-users, while “shovel-ready” industrial sites — like the Innovation District at Scarborough Downs — are proving to be the most successful model in today’s market.

One notable data point this year has been the sharp drop in the number of industrial sales, despite the continued rise in value. The combination of limited inventory, rising interest rates, and inflation has resulted in the lowest number of sales our firm has seen since I began tracking this data in 2011. This downward trend started in 2022, following two years of strong investment demand during and after the COVID pandemic. By year-end 2024, our sales volume was down about 75% from the peak in 2021. However, despite the drop in transaction volume, the values of the sales that did occur have increased significantly.

Lease prices are also on the rise, though not as sharply as sale prices. Anecdotally, activity in larger lease spaces has slowed. While vacancy rates still reflect a clear supply-and-demand imbalance, our recent slower deal activity suggests we could see a slight uptick in available inventory. That said, listed lease spaces are now asking well above $10 per s/f NNN, with smaller units reaching as high as $13-14 per s/f. In some cases, these rates surpass those of class B and lower-end class A office spaces. This has led to sticker shock for industrial tenants, particularly those new to the market or used to rates in the $5-6 per s/f range. This tenant pushback is likely contributing to the slower pace of lease rate increases.

In summary, 2024 saw fewer sales, but higher values, and a steady leasing market that helped maintain transaction volume. This year highlighted the Maine industrial sector’s ability to diversify and adapt successfully. I believe the industrial sector is poised for some steady years, as we settle into the “new normal” market.

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