



CELEBRATING
55 YEARS

nerej

Industrial tenants are in the driver-seat right now when it comes to negotiating leases with landlords

September 22, 2009 - Spotlights

Get me a broomstick and some limbo music and I'll show you. Or, better yet, get me a tenant for one of my industrial listings and we'll show you in a different way.

Industrial tenants are certainly in the driver-seat right now when it comes to negotiating leases with industrial landlords. Landlords are willing to be flexible on lease terms and some sellers are certainly willing to negotiate as well if a qualified buyer comes to the table. The demand for industrial properties continues to be light and increased vacancies over the past 12 months have further impeded market absorption. As a whole, Maine has never been the epicenter of manufacturing or a major distribution hub, however, we have historically had a strong manufacturing base related to the shoe industry, paper manufacturing, and boat building. These industries have evolved over the past 10 years and we have seen major transitions outside of the state in the shoe businesses and paper businesses. Many of these manufacturing companies have taken their operations overseas or to the southeast in search of cheaper energy, labor and transportation costs.

While the remaining paper companies work to reinvent themselves and their business strategies to compete in the new economy, some are also focused on a renewed effort to use their massive boilers for biomass energy production to convert to larger producers of alternative energy to sell back to the grid. These conversions, along with other state-wide efforts to increase alternative energy production are resulting in a new industrial sector focused on the manufacturing and development of wind, tidal, solar, wood pellet manufacturing and biomass energy projects. In addition, there are multiple proposals in process for LNG terminals and extended pipeline connections to Canada. Major upgrades are proposed to the transmission lines and electrical grid by energy providers such as Central Maine Power and Bangor Hydro Electric Co. All of these projects are contributing to an expansion and growth of a new manufacturing sector which will help the overall stability of the Maine industrial real estate market.

Another industrial sector which has had some recent successes in the state is the manufacturing sector focused on defense contracts. The recent rounds of contracts were released and more than a dozen companies in Maine will receive contracts worth a combined \$1.1 billion. These manufacturers are a diverse mix of ship builders, clothing manufacturers, firearm manufacturers, machine shops and experimental vehicle developers, among others. While the bulk of the funds are going to large manufacturers such as Bath Iron Works and General Dynamics in Saco; there are several smaller companies benefiting from this funding source as well. These contracts benefit the smaller companies enabling them to develop new products which will ultimately be used in other settings besides the U.S. Department of Defense.

Some of these smaller companies epitomize the creative entrepreneurial spirit which has created some fantastic growth industries within Maine. One example is Howe Manufacturing which is

developing manned and unmanned off-terrain track vehicles. Initially intended for military or police uses, the vehicles are gaining some interest from mining operations and the business is hiring new jobs and expanding.

The composites industry which has grown largely out of Habib Dagher's wood composites program at the University of Maine in Orono has also resulted in the development and collaboration of some unique companies such as Correct Deck, a composite decking manufacturer and Harbor Technologies, which is entering the realm of composite bridge construction.

Thus far, we seen some absorption of vacant industrial properties by these newer, growth industries mentioned above. We expect this trend to continue in the coming months. In the meantime, industrial landlords are being fairly aggressive and we find asking lease rates for industrial properties over 20,000 s/f to be in the \$3-\$4.50 per s/f NNN range. The smaller offerings under 20,000 s/f have been reduced as well and are typically priced in the \$4-\$5.50 per s/f NNN range. In multiple instances, we have found tenants who have negotiated new deals only to have the tenants' existing landlord drop the renewal lease rates substantially at the 11th hour in an effort to retain their valued tenants. Oftentimes, these landlords are successful in retaining the tenants because of costly moving expenses. The game of "going low" can be beneficial for tenants, but at the end of the day we are seeing a floor develop throughout the market that landlords will not go below. This should be the sign of a market bottom and things will recover in the coming months as orders start to pick up in the manufacturing sector. While we expect another challenging 12 months going forward, there are signs of improving market conditions and coupled with the new industrial businesses growing in Maine, the stage should be set for improved market conditions over the long-term.

Drew Sigfridson, SIOR, is a designated broker with CBRE/The Boulos Co., Portland, ME.

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