

2019

# Industrial Market Mid-Year Review





# Mid-Year Review

NAI The Dunham Group is pleased to present, for the first time, a mid-year review and update to our annual Industrial Market Survey. 2018 marked the first “correction” we’ve seen since we began tracking market conditions in 2011. Many of our industrial clients and property owners have asked how the trajectory is looking this calendar year. To that end, the following is a summary of what we’ve seen in the first six months of 2019.

At the close of 2018, Greater Portland’s industrial market overall vacancy hovered at 3.5%, lease rates were plateauing at an average of \$6.50/sf NNN and sales prices had climbed to an average of \$65/sf. For the first time in many years we started to see slight signs of a slow-down. Several vacancies sat longer than anticipated, lease pricing seemed to get significant Tenant pushback at the \$7/sf NNN level. Furthermore, a small handful of speculative industrial projects languished empty longer than developers had prepared for.

Indeed, the 1Q of '19 continued on a relatively slow trajectory. We began to hypothesize that this was the long-anticipated end of our bull market. Fortunately, the 2nd quarter and indicators for the 3rd suggest we still have steam left in this engine. Leasing activity picked up significantly this Spring and sales action and volume continue to set records.

As of July 1, the Greater Portland vacancy rate is down to 2.6%, a full 100 basis points lower than last year. This positive absorption suggests businesses are still growing and looking for expanded real estate solutions. On the other hand, it continues a challenging trend for end-users. 2.6% is simply not enough inventory to support a market like ours. Many industrial businesses are forced to consider new construction. As Sam LeGeyt points out herein, that decision comes at quite an expense. Despite the costs, we have seen several new ground-up projects in the last year or two with more to come. In Saco there has been over 250,000 SF of inventory added in the past calendar year. But with the added square footage, their vacancy rate is less than 2%.

Sales demand for existing inventory remains at an all-time high. This constant demand has driven average sales prices towards \$70/sf with peak pricing well over \$100/sf. Anecdotally, the last two industrial properties I’ve put on the market lasted a total of 10 days on market and each had multiple offers. Appraisers are starting to catch up, but it isn’t unusual for these transactions to appraise under contract pricing. This is forcing Buyers to come out of pocket as Seller’s maintain significant leverage and aren’t in a position of needing to negotiate.

## MARKET SUMMARY

Total # of Buildings	584
Total Market Size	18,932,665± SF <sup>1</sup>
Direct Vacancy	491,489± SF <sup>2</sup>
Total Vacancy Rate	2.6%

1 - Totals as of 7/2019 per NAI The Dunham Group Industrial Market Survey

2 - Totals as of 7/2019 per New England Commercial Property Exchange

Nationally, the industrial sector remains as healthy as ever. Speculative construction has kept up with demand and vacancy rates remain historically low throughout most of the country. Tertiary markets, in particular, are seeing great new development as businesses are attracted by cheaper land, tax incentives and interstate connectivity to find employees. In fact, many manufacturing businesses are choosing labor pools over geography as the driving reason for plant location.

In summary, the industrial market has rebounded nicely from a slow 6-month period towards the end of '18 and heading into 2019. We anticipate continued demand for sales inventory, and I suspect lease pricing will maintain it's average of \$6.50 - \$6.75 NNN range. The big question is how much more new inventory will be added in the coming years and how it will impact our market.



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## Recent Significant Transactions



### 48 Spiller Drive & 600 County Road, Westbrook

Spiller Drive, LLC purchased this 2-building investment portfolio totaling 162,580 SF on 12.53 acres from Lake Creek Properties, LLC. \$11,500,000

### 432 Elm Street, Biddeford

CPM II, LLC purchased this 26,146 SF bldg from Northern Ventures LLC. \$1,585,000



### 125 Pleasant Hill Road, Scarborough

Neuco Inc. leased 9,420 SF of warehouse space from 125 Pleasant Hill LLC.

### 53 Wallace Avenue, South Portland

New England Gypsum leased 35,705 SF of warehouse space from 53 Wallace, LLC.

### 25 Washington Avenue, Scarborough

New England Tech Air leased this 19,930 SF building from 25 Wash LLC.

## Available

Significant vacancies that will impact our market the remainder of 2019.



**29 Sanford Drive, Gorham:** 21,360 SF manufacturing facility in the Gorham Industrial Park for sale or lease. Offered for sale with a 12-18 month leaseback.

**47 Spring Hill Road, Saco:** 17,348 SF Class A facility on 3± acres for sale. 18'-22' clear height, loading docks, sprinkler system, and upgraded office space.

**955 Portland Road, Saco:** Up to 127,000± SF of build-to-suit industrial space for lease. Located 3± miles from I-95 Exit 36 with excellent visibility.



**55 Bradley Drive, Westbrook:** 13,720 SF for lease in Five Star Industrial Park. HVAC in manufacturing area, trench drain, and 20'-22' ceiling height.

**413 Presumpscot Street, Portland:** 16,000± SF for lease. 12 drive-in overhead doors and ample on-site parking. Rear of the property is visible from I-295.

**90 Blueberry Road, Portland:** 12,000 - 17,000± SF of high-bay warehouse/distribution space with showroom for lease. Located 1± mile from I-95 Exit 46.



# Industrial Construction

For those who have been following the Industrial real estate market in Southern Maine over the past 10 years, it should be no surprise that vacancy continues to be very tight and demand for lease and for sale opportunities is still strong. Although we saw some larger (10,000-20,000 SF) Class A/B Industrial spaces linger on the market in late 2018 and early 2019 we have seen some of those bigger holes filled.

Interestingly, we have seen continued interest in new construction. Although construction costs have skyrocketed, interest rates have softened, and buyers are still hesitant to pay a market premium for industrial space (\$100± SF) when they can theoretically build exactly what they want. But at what cost?

The majority of these projects, although not all, are being driven by end users. The new speculative projects are requiring a minimum \$10.00/PSF NNN rate in order to be feasible. Owners users can afford to pay a little bit more given their equity but with existing inventory asking rates still between \$5.00 - \$7.00/PSF NNN, the divide is still strong enough to inhibit real growth.

Patrick Ducas, owner and President of Ducas Construction recently made the decision for his own company, after looking at multiple properties on the market, that it makes more sense his company to buy land and build exactly what they need. "By the time we buy an existing

improved property, at a premium, and renovate specific to our needs, we're better off building new. This way we feel we have a better end product and can customize to our needs immediately."

Other industrial businesses are making that same hard decision. We've tracked several new construction projects in Greater Portland, almost exclusively triggered by end-users. By our estimates, almost 300,000 SF of new industrial space has been added to our market in the last 12-24 months. We expect that trend to continue.

However, even with the added inventory, demand outpaces supply. Many Maine-based companies simply cannot afford new construction and are making due with either multiple smaller locations, or staying on the sidelines altogether. In any event, there is no question that the lack of supply and construction costs are inhibiting industrial business growth in Southern Maine.



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## Industrial Specialists

Industrial Real Estate property experts with more than 85 years of combined experience specializing in industrial real estate.



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