

2020

Industrial Market Mid-Year Review



Mid-Year Review

How's the market? It is the most common question asked of any commercial broker in these trying times. And, most often, the answer is "...depends". Unlike retail and the mixed-bag office market, the industrial sector is thriving through Covid. Manufacturing, warehousing and distribution are proving essential. And examples abound of industrial companies pivoting in a positive way to provide much needed services and products in account of this pandemic.

At NAI The Dunham Group, we are pleased to present a mid-year update to our annual Industrial Market Survey. Indeed, the statistics reflect a dynamic market and confirm our anecdotal and transactional workload. In 2020 we've added Falmouth to our survey and are now tracking a nearly 20,000,000 SF Greater Portland market including Saco & Biddeford.

Today, our vacancy rate holds steady at 2.79% and that includes the only significantly large vacancy in all of Greater Portland, a 167,000 SF warehouse at 203 Read Street in Portland. That building is getting a lot of activity and, if leased, our overall rate will drop to a stifling 1.95%. And, practically speaking, because most industrial end-users are looking for smaller units, that sub-2% availability is what tenants and buyers are dealing with. Herein Sam LeGeyt reports on the "sweet spot" for industrial users and the dramatic lack of this type of inventory. We are hopeful these market conditions lead to long-awaited speculative development.

Sales demand for existing inventory remains at an all-time high. Bullish investors, both local and regional, are competing with end-users. This consistent and competitive demand has driven average sales prices towards \$80/SF with peak pricing well over \$100/SF. It seems the volatility of the stock market and the uncertain economic outlook is driving investors to bricks & mortar. And, as mentioned, no sector is better positioned to weather the Covid storm and prosper post-pandemic than industrial.

Nationally, the industrial sector remains as healthy as ever. Unlike in Maine, 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

MARKET SUMMARY	
Total # of Buildings	626
Total Market Size	19,718,964± SF ¹
Direct Vacancy	550,821± SF ²
Total Vacancy Rate	2.79%
<small>1 - Totals as of 7/2020 per NAI The Dunham Group Industrial Market Survey 2 - Totals as of 7/2020 per New England Commercial Property Exchange</small>	

employees. In fact, many manufacturing businesses are choosing labor pools over geography as the driving reason for plant location.

Of course, the great caveat to all of this is Covid and the still lingering long term ramifications. I've said to many clients, we're very much IN this. This pandemic is happening right now. It's never been harder to make projections or predictions because there are so many variables and possible trickle-down effects from this pandemic we haven't even considered.

In summary, the industrial market is proving Covid-resistant and the environment has never been more competitive. We see few signs of change in the near-term but this pandemic is truly unlike anything we've ever seen. It would be irresponsible to say the industrial market is immune to the effects of this crisis. But so far it sure is putting up a good fight.



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Recent Significant Transactions



3 Washington Avenue, Scarborough

Flagstone Realty purchased this 21,073 SF property from MacDermot, LLC - \$2,000,000



7 Rand Road, Portland

Brockway-Smith Company purchased this 242,000 SF building from Rand Road Holdings, LLC - \$12,800,000



31 Diamond Street, Portland

31 Diamond Street, LLC purchased this 22,700 SF building from Frederick, LLC - \$2,500,000



203 Read Street, Portland

187-209 Read Street, LLC purchased this 167,154 SF property from Brockway-Smith Company - \$10,000,000



7 Lincoln Avenue, Scarborough

Berzinis Realty, LLC purchased this 20,000 SF building from 5 Spring Hill Drive, LLC - \$1,725,000



6 Lincoln Avenue, Scarborough

Abbott Diagnostics expanded to lease the entire 56,811 SF manufacturing and office building from Landholm, Inc.

Available

Significant vacancies that will impact our market the remainder of 2020.



203 Read Street, Portland

167,154± SF building for lease. Space includes 7,000± SF of air conditioned office space. Can be easily subdivided.



20 Morin Street, Biddeford

52,000 SF, turn-key food processing facility. Fully renovated in 2014. Heavy power, floor drains, food grade walls, etc.



1 Lehner Road, Saco

98,141± SF manufacturing building for sale. 1/4 mile from Turnpike Exit 36. Lease back from current tenant necessary.



33 Spring Hill Road, Saco

20,400 SF high-bay distribution building for lease. 5 loading docks and 1 drive-in OHD. Located in the Saco Industrial Park.



23 Washington Avenue, Scarborough

46,000± SF of warehouse with office and mezzanine. Plenty of parking and laydown area. Drive-in door and 6 loading docks.



101 McAlister Farm Road, Portland

18,400 SF of high-bay manufacturing or warehouse space with office. Multiple loading docks and drive-in OHDs.

Making the Case for Speculative Industrial Development

Since 2011 vacancy rates in the greater Portland industrial market have been falling with the exception of a slight and short-lived jump in 2018 (3.5%). Today we are now again below 3%, at 2.78% at Mid-Year 2020. Of course, that data relates to the entirety of the market, but as of late, we have noticed an even more limited supply of space under 5,000 SF.

As of the writing of this article, there are only eleven Industrial properties on the market for lease under 5,000 SF in all of York and Cumberland Counties. It should also be noted that, of these properties still available, only three offer a loading dock or loading dock access. The takeaway is that the current available properties do not fit the traditional mold for Industrial style tenants in the market. They are funky, they are likely 3rd or 4th generation space, and overall are tend to have poor office to industrial ratios.

Some might ask, why not market spaces as build-to-suit and build once you have a committed tenant? We find that the majority of tenants in this size range are not comfortable planning far enough in advance for a build-to-suit option. Most developers need 8-10 months to be able to deliver ground-up new construction, and these tenants can rarely, if ever, wait this long. We have been advising our tenant-clients to engage in the process as early as possible, because it could make the difference between a space that works and having to make a space work.

Additionally, tenants have a tough time “seeing the space.” A pile of dirt and some plans won’t cut it for most tenants to be able to visualize a build-to-suit

opportunity. They need to see it and feel it. So even if they have given themselves enough time to consider a build-to-suit opportunity, far more than not, they will choose a building that’s already built that’s not exactly what they want versus waiting for new construction.

So what kind of properties does this market segment need? No matter the business, no matter the tenant, everyone should want flexibility within the design and utility. A mix of overhead doors and loading docks, flexible sizing, outside storage, adequate parking, and as always good location will fuel a successful project.

I discussed this predicament with Senior Vice President and Regional Market Leader of Skowhegan Savings, Andrew Cook. Andrew said “Historically banks have been hesitant to lend on speculative developments for any commercial sector. However, given the dynamics in the current industrial market, this is one sector where I think we would take a harder look, particularly for a quality borrower, location, and overall plan.”

Every market indicator suggest that we need more industrial development and success will come to those who build it.



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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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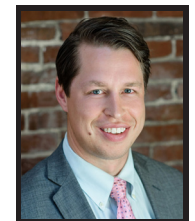
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