

SOUTHERN MAINE INDUSTRIAL & OFFICE MARKET

2023 Mid-Year Review



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MID-YEAR INDUSTRIAL REVIEW

The Greater Portland industrial vacancy rate has remained relatively stable since the last report at the end of last year, with a modest increase of 14 basis points to reach 1.91% as of July 1, 2023. The Dunham Group is pleased to present our Mid-Year update on the annual Southern Maine Industrial Market Survey. The current statistics still indicate a robust market favoring landlords and property owners, although we did mention earlier this year that there are promising signs for tenants and buyers.

Our total inventory pool continues to grow, albeit slightly. The total market size in Greater Portland is now 20,900,000 which includes Portland, South Portland, Falmouth, Gorham, Westbrook, Scarborough, Saco and Biddeford. The uptick in inventory can be attributed to new construction and a slowly developing new trend, conversion of office to industrial space.

The repositioning of office and retail into light industrial is fascinating to consider. No commercial real estate asset was hit harder by the pandemic than the office market. Large swaths of open office space sit empty in the Greater Portland suburbs and some, particularly first floor spaces, are prime for industrial conversion. As we once saw with large, big-box retail conversions, so too I think we will soon see in the office market. And industrial lease rates are beginning to mirror and surpass office space rates. So it could be a real win-win for tenants and landlords alike.

Pricing continues to escalate dramatically. We are now regularly topping \$9.00/SF and see several examples of peak pricing at or above \$12.00/SF NNN (for smaller, high-quality spaces). These rates are, as mentioned, comparable to the office market and gaining ground quickly as the two sectors are on opposite trajectories.

Sales demand remains historically high as investors and owner/users compete and continue to drive pricing up. Average sales prices are now north of \$100.00/SF, depending on size and quality. And many industrial buildings are selling well above that. Demand is coming from several industries, including pandemic-proof essential uses like manufacturing, shipping, warehousing, etc.

However, there are some concerns emerging in the market. The cannabis cultivation space, particularly for medicinal purposes rather than recreational, appears to have been significantly affected. The oversaturation that we had long predicted is now becoming a reality. Every week, we witness new listings, typically under 10,000 square feet, advertising “cannabis friendly/approved” capabilities. The critical question arises: If there is a decline in cannabis demand, how can we repurpose cultivation-specific facilities, and what rental rates will traditional businesses be willing to pay?

(continued)

MARKET SUMMARY

Total # of Buildings	677
Total Market Size	20,679,292± SF ¹
Direct Vacancy	394,226± SF ²
Total Vacancy Rate	1.91%

1 - Totals as of 7/2023 per The Dunham Group Industrial Market Survey

2 - Totals as of 7/2023 per New England Commercial Property Exchange



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Another concerning theme we continue to track is the critical lack of larger buildings available. At the time of this report, there were only three buildings larger than 50,000 SF available in Greater Portland and York County, and none larger than 100,000 SF. This lack of larger industrial space has stifled several big end-users who now have no choice but to consider new construction or pivot production to wait out this space-crunch. Wisely, industrial developers are now offering larger land sites that are more “pad ready”. End-users are willing to pay a premium for land if it comes with utilities stubbed, DEP approvals, road infrastructure, etc. These are critical pieces to a development that save time and get the dirt shovel ready.

Furthermore, the industrial sector is facing macroeconomic strains such as construction costs, delays, rising interest rates, inflation, and general economic uncertainties. These factors are exerting downward pressure on the industry, potentially slowing down much-needed speculative industrial development. For quite some time, we have been advocating for additional speculative industrial development, but these overarching issues are likely to impede the progress in that area.

In summary, the industrial market continues to be highly competitive and thriving, but there are indications of a potential slowdown. We are confronted with familiar challenges that have persisted for the past decade: limited supply, steady demand, rising lease and sales prices, and insufficient speculative development. However, with the introduction of additional inventory, a slowing economy, rising interest rates, and the decline of the cannabis boom, we might witness changes in the industrial market. It is important to emphasize that it still remains a landlord's market, but there are glimmers of hope for tenants and end-users.



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Significant Vacancies



28 Pond View Drive, Portland

74,724± SF manufacturing/storage facility on 9.8± acres for sale or lease. 60,544± SF of industrial space and 14,180± SF of office space. Building has recently undergone significant interior and exterior upgrades - including the addition of 3 new overhead doors and a new heating system in the manufacturing area. Marketed by The Dunham Group.



37 Bartlett Road, Gorham

20,000 - 52,300± SF of industrial space for sublease. (48,000 SF manufacturing space & 4,300 SF office space & cafe). Features 2 overhead doors, 2 loading docks with levelers, 25' ceiling heights, 5-ton gantry crane, locker rooms, and new security and fire alarm systems. 3 Phase, 4500 amp power. Marketed by The Dunham Group.



20 Morin Street, Biddeford

10,000 - 52,000 SF of turn-key industrial food processing space for sublease. The space features 1200 amp, 3-phase power, sloped floor drains, FRP-food grade walls throughout, a new 4,200± SF freezer, cooler equipment and infrastructure, shipping/receiving area and support office space. Marketed by The Dunham Group.

MID-YEAR OFFICE REVIEW

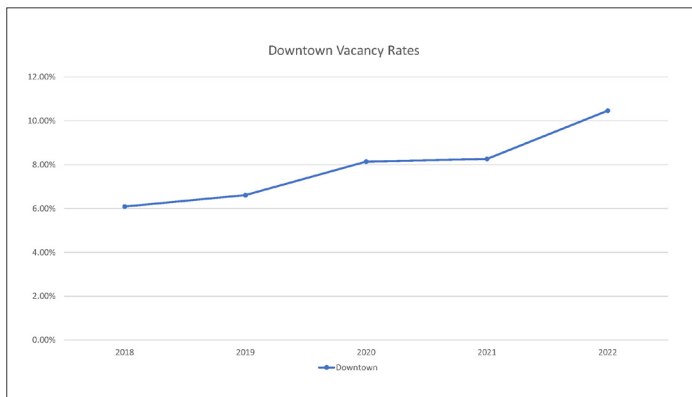
When you look at the overall office market in Greater Portland for 2022, the sector was in transition. Another year removed from COVID, and another year, where we still do not believe we have seen the last of its impacts. Firms are still trying to determine how many of their employees will be returning to the office and therefore how much space they will need. Some firms are planning for 40 – 50% of their FTE to be in the office on any given day (Travelers, LogistiCare, Prudential, UBS), others have decided to vacate the market entirely and consolidating offices in other New England states (Harvard Pilgrim, United Healthcare), while others are keeping the same amount of space or growing (Woodard & Curran, Capital One, Ameriprise). We expect this transition to balance out over the next 12-18 more months.

Outside of corporate America, small local users continue to dominate the majority of transaction volume. Of the 165 deals done in 2022, 93% were for 10,000 SF or less, which is consistent with our historical market data. Interestingly, we also saw a 14% increase in the number of transactions made in the Office Market YOY.

DOWNTOWN MARKET

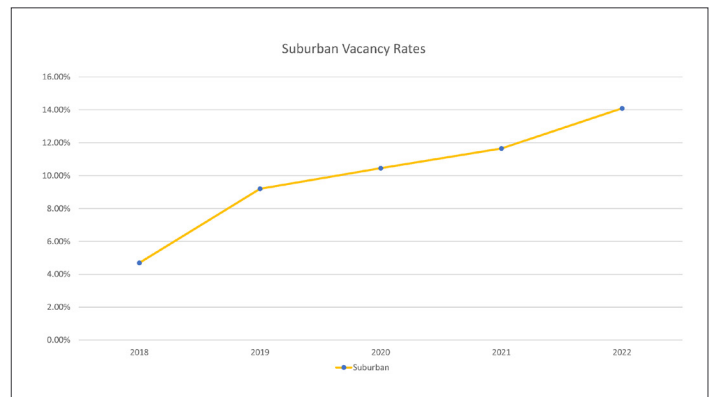
The Downtown market Class A sector was the most resilient with overall vacancy dropping slightly from 9.09% to 8.92%. Class A saw a positive absorption of 212,000 SF driven by 12 Mountfort Street (129,866 SF) and 110 Thames Street (90,000 SF) coming online this year 100% leased. 12 Mountfort Street was built for Covetrus, who subsequently subleased 56,000 SF to Woodard & Curran.

Downtown Class B overall vacancy increased significantly from 7.83% to 11.42%, resulting in a negative absorption of 313,000 SF.



SUBURBAN MARKET

The market is abuzz with the amount of vacant space in the Suburban office market these days - with overall vacancy increasing from 11.63% to 14.09%. With a large amount of corporate, cubicle-type space we saw come on the sublease market in 2021, it was only a matter of time before this square footage hit the direct vacancy rate. Interestingly enough, the majority of this space is in the Maine Mall submarket. We expect to see the sublease spaces roll over to an increasing direct vacancy rate over the next few years.

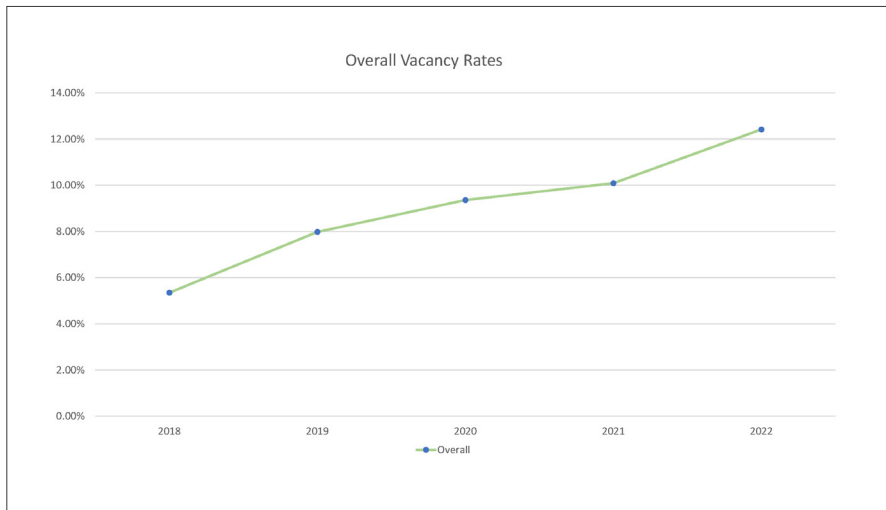


MID-YEAR OFFICE REVIEW

FORECAST

As the pandemic comes to an end and the world gets back to normal, Corporate America will find the equilibrium of work from home vs in the office. Most senior executives would prefer employees to be in the office, promoting employee comradery and mentoring, therefore we expect more employees will be coming back to the office over the next 12 to 18 months increasing the need for larger office space.

No bold or surprising predictions here, we expect to see more of the same continue in the next twelve months. The Downtown market will remain steady overall, and the Suburban market will be in flux, with higher vacancies and more space on the sublease market. One thing for certain, we expect to see landlords in both the Downtown and Suburbs look more closely at conversion possibilities as tenants have shifted into the driver's seat and demand has slowed.



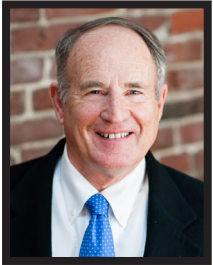
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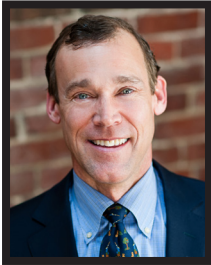
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OUR TEAM

At The Dunham Group, we never lose sight of the fact that our in-depth commercial real estate knowledge and market specialization can help shape our communities. That's why we are a commercial real estate brokerage company with values. Located in Portland, Maine, our firm adheres to the highest ethical standards to provide honest, insightful market analysis for results-oriented brokerage and consulting. This is how our team of commercial brokers have developed loyal, long-term relationships with our clients for decades. We build up portfolios with our collaborative and data-driven approach, but more importantly we build up partnerships. Whether you are an individual investor, a small business owner, or the CEO of a large corporation, you are a respected and valued client, and The Dunham Group will help you attain your commercial real estate objectives.



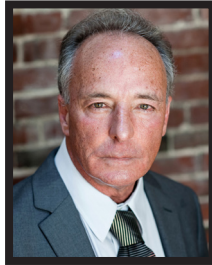
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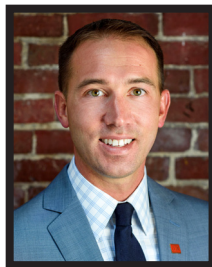
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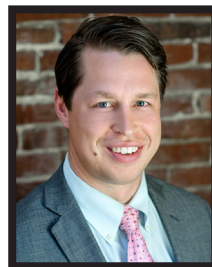
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