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2017 update: Greater Portland office market remains steady and strong - by Matthew Barney

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The first half of 2017 continued a positive trend for Greater Portland, with reliable growth on many fronts.

Vacancy dropped in all sectors resulting in the largest positive absorption in our market since 2004 at 248,320 SF or 2.48%. While a single, suburban transaction accounted for roughly one-half of that figure, normal absorption was also well above average in the first six months.

Leasing activity decreased by 13%, but remained equal to/above annual levels going back a decade. By size, large-tenant leasing (>10,000 s/f) was down by 1/3, with small-tenant transactions (<4,000 s/f) now accounting for 80% of the market. Tenants are clearly becoming more productive with their use of space.

Large, "for lease" floorplate options (10,000+ s/f) are now non-existent downtown, with the suburbs only offering a few alternatives for tenants – a continued gap in our market that doesn't look to be changing anytime soon.

Investor sale activity slowed further in the first six months, but demand remains at an all-time high even with interest rates starting to climb. Notable sales included the downtown Fore St. portfolio of 65,000 s/f and 82 Running Hill Rd. in the suburbs for 114,017 s/f. 175 Running Hill Rd. (62,615 s/f) is currently the only public, on-the-market investment offering of interest.

Overall vacancy (combined direct and sublease) came in at 5.48% as of mid-year, a drop of nearly 3 percentage points in just six months. The sale of One Riverfront Plaza (Westbrook) to Maine Medical Center was the greatest, single contributor, converting a vacant 140,000 s/f investment building into a fully-occupied owner-user property. That transaction alone cut suburban class A vacancy by 2/3, dropping from 9.82% to 3.28%. Similarly, downtown class A vacancy now stands at 3.36%, down 1/3 from 4.86% (the lowest in 16 years). Class B, downtown vacancy, with a 10-year historical average of 11.9%, was at 8.75%, while its suburban counterpart was 5.37% (nearly half its 9.12% 10-year average). For perspective, national office vacancy is estimated at 13.5% as of mid-year.

Leasing options for tenants greater than 10,000 s/f remain scarce, which is now impacting renewal rates and encouraging new construction. 47,734 s/f is set to come online in the 3rd quarter at 16 Middle St., with roughly 32,000 s/f leased, and 170 Fore St. is approved and poised to add 45,000 s/f pending a lead tenant. One remaining downtown floorplate that was available at One Monument Square has now been leased by Certify, Inc. (12,761 s/f). The suburban sector had 21,066 s/f available at 176 Gannett Dr. and another 30,000 s/f available at 75 Darling Ave., but both options were withdrawn and absorbed by existing tenants.

Going forward, supply/demand dictates that rents will increase further as the market tightens. Downtown parking costs have already spiked in response to demand, which should push tenants towards the suburbs (which is also less costly for new construction). However, demand for downtown continues to be stronger than traditional market forces, which is further evidenced by the planned construction of 100,000 s/f along the waterfront – headquarters for WEX. All indications look positive for this project to move forward, adding 6% more class A space along with 100,000 s/f of absorption. Greater Portland is healthy and strong, but downtown Portland is experiencing unprecedented growth.

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