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Greater Portland office and industrial markets: It is a time of opportunity

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Office Markets

2009 was a challenging year for the Greater Portland office market, and 2010 is trending along the same line. Overall vacancy increased in 2009 by 2% to 10.39%, ending the year in double digits for the first time since 1996. As of the first quarter of 2010 an additional 150,000 s/f of former shadow space became available, adding a minimum of 1.5% to overall vacancy, with the lion's share in the downtown market.

Net absorption was negative in 2009 by 51,959 s/f or .53%, the first time with noticeable negative absorption since 1995. We anticipate a further decline in net absorption for 2010. In aggregate, asking rentals rates increased 2.75% in 2009, with only the suburban Class A sector posting a reduction resulting from multiple new vacancies there. We believe asking rental rates will decline some in 2010, as rent concessions become more prevalent. On a brighter note, sales were active in 2009, relative to recent years, and leasing transactions were equal to 2008, albeit for shorter terms, less square footage and lower effective rents.

The downtown office market was active in 2009. Overall vacancy remained level with 2008, ending at 8.82%, net absorption was positive by 40,000 s/f, and multiple buildings traded hands, including 110 Free St., 465 Congress St., the former Portland Press Herald buildings at 390 and 385 Congress St., and the package sale of One/Two/Three Canal Plaza. For 2010, overall vacancy is expected to increase by at least 2% to 3%, driven by new vacancies at Two Portland Sq. (45,000 s/f on the 6th and 7th floors left by TD Bank) and 390 Congress St. (84,000 s/f left by Maine Today Media). On a positive note, the conversion of 25 Preble St. into Class B office space will be completed in 2010, adding an additional 43,960 s/f to the market as the new home for Power Pay.

The suburban office market was not as fortunate in 2009. Overall vacancy increased by 3.5%, with a corresponding loss in net absorption of 92,000 s/f or 1.74%. The Class A sector was the hardest hit, posting an increase in overall vacancy of 5.07%, ending the year at 12.85% (more than double its 10-year average of 5.91%). Two significant corporate moves impacted results - Fairchild released the 4th floor at 82 Running Hill Rd., S.P (26,546 s/f) and Idexx retracted to their home campus from 6 Ashley Dr., Scar. (56,189 s/f). The Class B sector posted its fourth consecutive year of increased overall vacancy, ending 2009 up 2% to 10.76%. On a positive note, the market expanded by 48,000 s/f due to the conversion of 71 US Rte. One, Scarborough to an office use. We don't foresee a further decline in the suburban market for 2010.

For the Greater Portland office market, 2010 is shaping up to be another year of "bumping along the bottom" of this recessionary cycle. We've seen owner-user and investor purchases at well-below market pricing, and corresponding lease deals that favored tenants. The signs all point to 2010 as being the bottom of the cycle.

Industrial Markets

2009 was a year of reduced expectations for the Greater Portland industrial market, but signs of a turnaround are emerging. Market growth was near zero and vacancy rates increased to levels above 5-year and 10-year averages. However, market opportunities for well-positioned tenants, investors and owner-users became more and more prevalent.

Overall vacancy increased slightly, ending 2009 at 6.85% vs. 6.05% in 2008. Results were mixed by submarket, with Falmouth, Portland, and South Portland posting increases, and Gorham, Scarborough and Westbrook showing declines. South Portland posted the largest increase in vacancy, ending at 8.27% vs. 1.53% in 2008. Gorham posted the largest decrease in vacancy, down by 3% to 8.68%

Net absorption was negative by 165,657 sf or 1.11%, the first sizable negative posting since 2003. Significant new vacancy in South Portland was the primary contributor, offset by Gorham's positive absorption of nearly 3%.

Average asking rental rates declined for the third straight year, closer now to 2003/2004 levels. South Portland posted the largest decline, down $1.00 per s/f on average vs. year-end 2008.

National forecasts for industrial output are trending upward. Locally, seasoned investors are acquiring and owner users and tenants now recognize the bottom of the market is near. It is a time of opportunity, as 2009 has hopefully set the stage for an increasingly active 2010.

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