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Maine's roller coaster: suburban class B office rate drops to 6.73%, downtown class A rose to 11.16%

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Last January I wrote with tepid confidence that things seemed to be improving in the Greater Portland office market. 2008 and 2009 were very difficult years for the real estate market but there were quantifiable signs of improvement and reason to believe that 2010 would begin our slow climb out of the commercial real estate downturn. However, according to our latest data it seems I was about twelve months early in my positive prognosis. We in fact saw continued increases in overall vacancies in 2010.

This month, CBRE|The Boulos Company will release our annual Greater Portland Office Market Survey. It is a comprehensive survey of all Class A and B office space in the Greater Portland area. Each building's vacancy rate and asking lease rates are carefully calculated and charted. It serves as an excellent barometer of commercial real estate trends and the overall health of our market. We've also included regional market observations outside of the Portland geographical area. The 2011 Office Market Survey can be viewed in its entirety and downloaded for free at www.BoulosOfficeMarketSurvey.com.

This year's results showed a significant increase in vacancies after what was perceived as a plateau last year. From 2008 to 2009 the overall rate in Greater Portland rose a nominal amount from 9.11% to 9.15%. However, the 2010 overall vacancy rate rose to 11.16%, an alarming increase of over 22%. It should always be noted, however, that in a market this small it only takes one or two major transactions to account for significant fluctuations in the data. This was certainly the case in downtown Portland as we saw TD Bank, Maine Today Media and MaineHealth make major real estate transitions that affected our numbers.

Upon closer examination of the data, it becomes clear that some sectors are stronger than others. It seems, for example, that companies are trending towards more inexpensive, suburban space as opposed to Class A downtown office space. The data bears this out as suburban Class B space saw its vacancy rate make a rebound from 8.64% in 2009 to a healthy 6.73% in 2010. On the other hand, Class A office space in downtown Portland increased its vacancy rate for the fourth consecutive year to 10.72%. TD Bank's relocating from One Portland Sq. to a more affordable office building near the Maine Mall in South Portland is an excellent example of this trend.

Healthcare remains one of Southern Maine's strongest economic drivers. As such, it's encouraging to see the overall medical office vacancy rate decrease to 4.27% in 2010. The medical commercial real estate sector was hit hard in 2007 by the expansions of the Mercy Fore River campus and the new 103,000 s/f Intermed building, both in Portland. However, for the third consecutive year the medical office market saw positive absorption. Of the 1.1 million s/f of medical office space in Greater Portland only 48,000 s/f is available today. This trend has surely helped trigger two major recent developments. MaineHealth is converting the former Orion Center (a retail mall) in

Scarborough to a 100,000 s/f office and lab campus. Also, Martin's Point is nearing completion of their new 43,000 s/f medical building and parking garage at their Portland campus.

As is historically the case, Greater Portland remains healthier and more stable than that of comparable regional markets. Boston, Hartford, Providence, New Haven and others face overall vacancy rates of 13-20%; each higher than the Greater Portland market. Interestingly, other markets seem to be offering similar incentives to tenants in an attempt to ebb the increasing vacancies. Things like free rent, increased tenant improvement allowances, broker incentives and parking subsidies are becoming more and more common throughout New England.

For a more detailed analysis of the Southern Maine commercial real estate market, visit www.BoulosOfficeMarketSurvey.com. We've also included a number of articles outlining new market developments, significant transactions, current lending conditions and more.

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