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Southern Maine office and retail markets expand: 1 million s/f of power ctr. retail under construction

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The southern Maine office market expanded moderately in 2007. Approximately 200,000 s/f of office space was absorbed in a total market of 11 million s/f.

250,000 s/f of new space was added via new construction. This new construction was predominantly a build-to-suit with minimal speculative space. Construction of speculative space has slowed significantly due to a combination of reduced demand and lease rates that do not justify today's higher construction costs. Despite a softening construction market, raw materials continue to drive up development costs.

The Portland peninsula has been the primary beneficiary of new construction, particularly in high visibility areas. Mercy Hospital is constructing a new 80,000 medical facility on the new Commercial Street connector, which runs along the Fore River. This site was formerly an undeveloped industrial area highly visible from I-295.

Another Portland gateway area under development is the Bayside neighborhood along Marginal Way and I-295. Three new office buildings have been completed or are under construction totaling over 160,000 s/f. These projects were generally build-to-suit and have provided an attractive visual introduction for Portland visitors.

In downtown Portland, a 61,000 s/f Class A office building was constructed at 300 Fore St. Again, this property is primarily a build-to-suit condominium for a 50,000 s/f owner/user.

Greater Portland office vacancy increased in 2007 to 6%. This increase in vacancy is a result of several large regional tenants that were acquired and consolidated in other states. Rents remained flat due to moderate demand.

Looking to 2008, several factors will shape the office market. There are several large office users looking to locate on the Portland peninsula, which should result in new construction. Possible sites include the Bayside area and the Maine State Pier. Development rights to the pier were recently awarded to Olympia Equity Development. This project will include hotel, retail and office development in a very high profile waterfront location in the heart of Portland's Old Port district. These positive activities could be offset by increased vacancy and lower lease rates if we enter into a recession.

Southern Maine Retail Market

The retail market in Maine continued to expand in Southern Maine, although vacancy rates are rising. Over 1 million s/f of power center retail is currently under construction, particularly in the Maine Mall market. In Scarborough Galleria, a Wal-Mart Super Center and Lowes anchored center totaling 600,000 s/f is scheduled for phased completion in 2008. Cabella's, 130,000 s/f retail store combined with 78,600 s/f of additional retail is under construction just south of the Scarborough

Galleria. Cabella's, one of the largest outdoor hunting and fishing retailers in the country, is looking to out position L. L. Bean capturing incoming Maine visitors from a more southerly location.

Regional retail hubs have also experienced power center growth. Augusta, Biddeford, Auburn, Topsham and Bangor have experienced the most growth. In addition to Wal-Mart and Lowe's, anchor tenants include: Target, Kohl's, Best Buy, Circuit City and Hannaford Brothers. We project that constitution of power centers will curtail in 2009, or these anchor tenants penetrate all Maine markets capable of supporting stores. Additional permitting hurdles will also deter power center development, including a new state mandate requiring impact studies for all retail developments over 70,000 s/f.

The outlet markets in Freeport and Kittery are healthy with very low vacancy. An 118,000/sf retail development in downtown Freeport will be under construction in 2008. Freeport Village will be located near the intersection of Main Street and Bow Street at the former L. L. Bean factory store. This new development accompanies a large expansion of the L. L. Bean retail store in 2007.

One of the major success stories of 2007 is the opening of the 59,000 s/f Whole Foods Store in Portland's Bayside area. The development is located centrally off of I-295. The store has exceeded Whole Food's expectations and appears to be drawing from a geographic base far exceeding a typical supermarket. The success of the store also validates greater Portland's growing affluent demographic sector.

2008 will be a significant year for the direction of retail growth. If new construction is not leased, vacancy could increase significantly curtailing future development.

Charlie Craig is a partner at NAI The Dunham Group, Portland.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540