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Maine's commercial real estate market will overcome economic uncertainty

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The past year has been a bumpy ride for our national economy. The collapse of the subprime mortgage market, higher energy costs, and global credit market instability are creating a tumultuous economic environment. The word 'recession' is becoming more prevalent in the media, and stories about the residential mortgage crisis and related massive write downs in some of our country's largest financial institutions generate consumer concern on the national level.

The changes we're experiencing can, and often do, materially affect commercial real estate. So, what does all of this mean for Greater Portland's commercial real estate market?

According to CBRE Torto Wheaton Research, on a national level, the peak of occupancy levels in the current real estate cycle was reached at the end of 2006 for most property types, creating higher vacancy rates in 2007. In Maine, however, some market segments experienced a decrease in vacancy during 2007. For example, downtown Portland's office vacancy rate dropped to 6.34% in December 2007 from 6.98% the previous year. This is a trend we share with the Boston market, as well as other New England metro areas. It appears, then, that New England's market is performing nicely compared to national statistics.

Until the national economy begins a turnaround, it's likely that Greater Portland will experience a softening in both sale and leasing activity. The Portland market tends to avoid dramatic upswings and therefore downturns, meaning that we'll likely experience a relatively soft landing locally. The absence of spec development, continued stable demand and a couple of key company expansions helped buoy Portland's office market in 2007, and more of the same looks to be in store for 2008.

In 2007, new construction added 105,807 s/f of office space to Portland's downtown, with positive absorption of 126,987 s/f. While this is an indicator of a healthy, growing market, it is also due in part to developers waiting until a project is 50-75% leased before breaking ground on new office buildings. While the combination of tightened lending standards, increasing building costs and relatively small pool of potential tenants will continue to impede spec building in 2008, several projects are proposed for development in Bayside and the Eastern Waterfront over the coming year.

The Bayside area is an under-utilized and under-developed section of Portland which is bordered by I-295 and downtown. The city has invested millions of dollars and spent years planning Bayside's conversion from scrap yards, vacant lots, abandoned rail yards and industrial buildings to a vibrant, mixed-use gateway to the downtown area. The vision for Bayside has been partially realized in recent years with multi-story office towers, a new Whole Foods grocery store, and additional retail and residential development. A 100,000 s/f office tower on structured parking and a student housing project are both presently under construction with occupancy slated for this fall. In addition, several projects are still on the horizon, which will help complete Bayside's transformation. Of

particular interest is a 3.3 acre lot owned by the city-run Downtown Portland Corp. (DPC). The DPC is evaluating proposals from four developers.

Over the past several years there has been a flurry of proposed new development on the Eastern Waterfront. The area comprises some of the most coveted land in Portland and remains one of the few under developed areas on the peninsula. Construction on a new terminal known as Ocean Gateway is near completion and will be ready for its first scheduled passenger ferry visit on May 30th. An adjacent parking garage under private development is also under construction with an anticipated spring opening. While some of the proposed office, retail and hotel developments have been put on hold or downsized due to changing market conditions, the area should still see substantial activity over the coming months.

On the retail front, Maine has experienced explosive retail growth in several markets over the past decade. The most prevalent of growth areas include Biddeford, Augusta, Topsham, Bangor and Greater Portland. Though there are still retailers expanding in Maine, we don't expect to see proposed new retail development on a large scale over the coming year. One exception is the recently unveiled plan for a 1.6 million s/f enclosed mall in Westbrook.

Scarborough is home to retail development that has been in progress for some time, and 2008 will bring with it the completion of two significant projects. The first is a 130,000 s/f Cabela's store expected to open this spring. Construction on the associated strip centers and restaurant outparcels is also underway. In addition, a new Lowe's opened in late 2007, and will be joined by a Wal-Mart Super Center, which will round out the "Scarborough Gallery".

Overall, Maine's commercial market is poised to forge ahead with the consistent, slow pace of growth we've grown accustomed to.

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