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Greater Portland's 2007 office market survey

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Looking ahead to 2008, Intermed and Drummond Woodsum will occupy nearly all of the 100,000 s/f building under construction at 84 Marginal Way. Occupancy of this Atlantic Bayside Trust LLC development, their third building at this corner, is expected in the fourth quarter of 2008. Several large national tenants, including Smith Barney and Stantec, are currently in the market and expect to secure leases in 2008. We expect 2008 to be an active and transitional year with downtown vacancy remaining close to 2007 levels and absorption remaining positive.

Suburban

2007 was a year of mixed results for the Suburban office market. Direct and overall vacancy increased nearly two-fold and net absorption was negative by 46,303 s/f. However, new construction and renovation projects were active in the Class B sector, adding 90,000 s/f, and asking rental rates increased by 5% across both A & B sectors. The suburban office market now stands at 5,123,843 s/f, representing 54% of the Greater Portland office market.

The Class A sector posted the largest increase in direct and overall vacancy, increasing from below 1% to 5.99% on the direct side, and from 2.36% to 6.63% on the overall side. The largest factor for the increase was the re-emergence of 300 Southborough Dr. to the survey. With Unum's lease now concluded, this full-building vacancy added 116,514 s/f, nearly 5%, of direct available space to the Class A sector. Furthermore, asking rents at this building have aided in boosting rental rates 6% above last year's levels. The net result was negative absorption of 127,663 s/f. There was no new construction in the A sector, and the only notable sale was the purchase of 600 Sable Oaks Dr. by Brookwood Sable Oaks Drive LLC, an out-of-state investment group.

Multiple lease signings in the Class A sector that helped offset the rise in vacancy included: One Beacon's renewal of 28,114 s/f at 707 Sable Oaks; IDEXX sublease of 23,770 s/f at One Riverfront Plaza; Aetna's expansion into 14,436 s/f at 175 Running Hill Rd.; New York Life's lease of 7,584 s/f at 500 Southborough Dr; and APS Healthcare's partial sub/direct lease of 6,331 s/f at 600 Sable Oaks Dr.

The results in the Class B sector were more favorable. New construction/renovations added 90,000 s/f in 2007, with owner-user and investor projects in Scarborough (400 and 600 Technology Dr. at Enterprise Business Park), Westbrook (15 Saunders Way), Falmouth (12 Northbrook Dr. and 380 US Rte. One), and Portland (41 Hutchins Dr.). The by-product of this activity was net absorption for the year of 81,360 s/f in the Class B sector, and a bump in asking rental rates of nearly 4%.

Vacancy increased in the B sector, but only by roughly one percentage point. For the year, direct vacancy was 5.51% and overall vacancy was 6.08%, both at levels very near their respective 5-year and 10-year averages. Class B leasing highlights for 2007 include: Woodfords Family Services lease of 26,880 s/f at Saunders Business Park; United Health Groups 12,296 s/f lease at 340 County Rd.; and Schaller Anderson's 8,762 s/f lease at 207 Larrabee Dr.

We conclude that 2007 was a transition year for the Sub-urban office market. Vacancy rates returned to 5-year and 10-year averages, while expansion was evident in multiple towns. For 2008, we expect overall vacancy to tighten to below 6% in both A and B sectors, and asking rental rates to remain level with the increases posted this past year.

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