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CELEBRATING 55 YEARS

Active, in a word, sums up the first half of 2015 in the Greater Portland office market

July 30, 2015 - Spotlights

a word, sums up the first half of 2015 in the Greater Portland office market.
* Vacancy and absorption was varied by sector, up in some/down in others;
* Leasing in the large-tenant market was robust, with a handful of transactions impacting almost all of the available large floorplate options in the market;
* A new building came on-line in the suburbs, adding 75,000 s/f (fully-leased); and
* And we witnessed the largest office market sales in Maine history with nearly 500,000 s/f changing hands in two transactions in the downtown class A sector.

Overall vacancy continued to trend down for the office market as a whole, now at 8.24% (the lowest level since 2007). But below the surface we find distinctly different stories in two sectors - the downtown class B sector has now increased vacancy for the first time since 2010 (coming in at 12.03%) and in stark contrast the class A suburban sector is now at 3.38% (excluding shadow space) which is the lowest level in a decade.
Large-Tenant leasing was robust in the first half, resulting in a significant reduction in the number of large-floorplate options now available in both downtown and suburban markets. Notable lease-ups included One Monument Sq., where combined Bank of America and BlueTarp Financial removed over 50,000 s/f downtown; the full-building lease of 53,640 s/f by WEX at 123 Darling Ave.; and Sun Life taking the top two floors at 6 Ashley Dr. for 38,390 s/f. Also of interest was the renewal by Stantec for 38,784 s/f at 482 Payne Rd. and the new construction of 75,000 s/f at 151 Jetport Dr., the new home for the State of Maine DHHS offices.

Class A office sales spiked in the first half of the year, with three distinct properties changing hands downtown - One and Two Portland Sq. (260,000 s/f) and 100 Middle St. (195,000 s/f). Also in process is the sale of 400, 500 & 600 Southborough Dr. to a local investor (a total of 106,553 s/f), expected to close in the 3rd quarter.

Going forward,
keep an eye on:
* Conversions of distinct office buildings to a residential use, especially along the Congress St. corridor. 390 Congress converted to hospitality a while back, 415 Congress is a strong possibility (25,000 to 40,000 s/f impact) and 443 Congress is in the midst of gaining approvals for 30+/- units on the top four floors (eliminating over 20,000 s/f). The downtown residential market is peaking.

* New construction should be on the horizon, as the options for large, office tenants become more

limited (especially downtown). The cost associated with new construction has been limiting for most tenants in the past, but this will be interesting to watch. If you are looking, you should have a tenant rep broker guiding you as there is much happening below the surface here.

* Rental rates - Will they rise in the wake of shrinking leasing options? Yes, in the class A sectors, but sadly the downtown class B sector continues to struggle with lower demand. I expect the latter will see dropping rates in the short term.

Matthew Barney is a broker for Malone Commercial Brokers, Inc., Portland, Me.