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Class A & B office vacancy rates drop in Greater Portland, sublease market is significantly higher than direct rate - by Kristie Russell

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Over the past year, the office market in downtown Portland has seen a steady amount of absorption, leading to a 1% drop in the vacancy rate. The overall average rental rate fell compared to last year with the sublease asking rate dropping by 3.3% (\$1 per s/f), but the direct asking rate increasing by 3.1% (\$0.69 per s/f).

The class A sector tightened slightly over the last year, finishing the quarter at 9.9%. Even with the vacancy rate falling by 0.8% year-over-year, the amount of direct available space increased by 1.7%. Some of this jump can be attributed to sublease space moving to a direct availability, but there is a notable amount of available space that hit the market but is occupied until later this year. The class A average rent climbed by 2.9% (\$0.80 per s/f) year-over-year, ending the first quarter at \$26.46 modified gross. Most of this increase was caused by space that was listed at below the average asking rate being leased.

The class B sector had the largest drop in its vacancy rate, falling by 1.7% year-over-year and ending the quarter at 6.9%. Rental rates in the sector fell compared to last year, with a 1.4% (\$0.30 per s/f) drop. While the direct rate decreased, the sublease rate increased dramatically - climbing by 14.8% (\$3.11 per s/f) - and finished the first quarter at \$24.06 modified gross.

Interestingly, the sublease rental rate in downtown Portland is significantly higher than the direct rate. In the class A sector, the difference between the two is \$6.10 per s/f and the difference in the class B sector is \$2.73 per s/f. A major contributor to this is 12 Mountfort St., a newly constructed class A office building. Covetrus announced in 2018 plans to build a new headquarters to support its 1,500 employees. The new facility opened in December 2022, but now the company only needs space for roughly 300 employees in Portland, creating a large sublease availability. It is typical to see new construction projects at higher than average rents, but new construction is not typically available for sublease.

Some first quarter transactions worth noting include:

A 20-year master lease was signed for the 126,000 s/f class A office/retail building at 511 Congress St. and the neighboring parking garage at 48 Brown St. by an LLC associated with Port Properties. After the master lease was signed, the class A building reached full occupancy when an 11,000 s/f vacancy was leased.

At 100 Middle St., the GSA restructured and renewed its lease of 28,300 s/f of office space. Also in this class A building, Relativiti subleased 3,035 s/f from BerryDunn.

Kepware, part of PTC Inc., leased 21,518 s/f of class A office space at 25 Pearl St. The national computer software and service company has grown in Maine and will be moving from its smaller location at 400 Congress St.

Roux Institute at Northeastern University has been in the news over the past year and a half for its

plans to build a state-of-the-art campus at the former B&M Baked Beans factory. The 23.5 acre industrial lot was purchased in March 2022 for \$10.5 million. In February 2023, the Portland City Council approved the new “institutional overlay zone,” which creates the ability to build the mixed-use campus. While it waits to move through the planning board process, Roux Institute will continue to operate out of 100 Fore St. It has been in this location since it opened in 2020 and has been expanding ever since, subleasing an additional 15,000 s/f from WEX this quarter.

Dufour Tax Group, LLC leased 12,108 s/f of class B office space at 400 Congress St. The company is relocating its office from 215 Commercial St. to the 4th floor of 400 Congress St. later in 2023, after significant renovations are completed.

Summit Natural Gas, based out of Augusta, leased 6,881 s/f of class B office space at the Maine Wharf at 68 Commercial St.

Two Sigma Investments, the international finance company, leased 6,370 s/f of class B office space at 100 Commercial St.

Comic Link, Inc. expanded and renewed its lease at 2 Monument Sq. The full-service auction house now occupies 6,700 s/f in the class A building.

22 Free St. welcomed two new tenants this quarter. Monarch Information Security Consulting leased 1,355 s/f. According to the company’s LinkedIn profile “After years of the work-from-home life, its finally time to have a central location.” SCORE Maine is moving from its longtime home at 100 Middle St. into 1,654 s/f at the class B building, to help serve local small businesses.

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