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Greater Portland office market, like many other cities, is still adjusting to the post-pandemic world - by Justin Lamontagne

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Outlook: The Greater Portland office market is still adjusting to the post-pandemic world. Although the major headlines from primary markets are scary and fear-mongering, Southern Maine is not poised for the bumpy rides you might see on the news or read about in the newspaper. Here's what's going on;

Most corporate tenants are renewing or relocating to space that is 40 – 50% less than previously occupied. Basically, occupying enough space for 50 to 60% of full-time employees (FTE).

On the local side, tenants are still actively looking for space in similar sizes to what they have now. These typically smaller tenants, drive our market, as 70-75% of the deals done on an annual basis are 4,000 s/f or less. This year they accounted for ~71% of the deals transacted, but only 32% of the square footage leased in 2023.

Across all submarkets this year, high construction costs and many tenants' desire for shorter-term leases made it difficult for landlords and tenants to come together on deals. We do expect to see building materials costs come down, but the labor rates have significantly gone up over the past 3-5 years in the construction market, making it hard for anyone to forecast construction pricing coming down.

Vacancy Rates: Greater Portland's overall vacancy rate (direct vacancy plus sublease space) has increased to 14.11%. This is a significant increase from 12.45% at year-end 2022; and is the highest overall rate since we began this survey in 1993. The largest increases were seen in the suburban market where the class A market jumped from 17.94% to 20.79% and class B increased from 10.77% to 14.71%. The downtown market was much steadier, dropping only 80+/- basis points from 10.82% to 10.03%

Downtown, the class A market's increased vacancy rates are attributable to sublease space at 100 Middle St., hitting the direct availability, and Prudential's downsizing at Two Portland Sq. In 2023, over 245,400 s/f of class B office space has been removed from the market and has been approved or is in the process of being approved to be converted to residential, hospitality, and retail uses.

Lease Rates: With higher vacancy rates, landlords have been more aggressive in offering free rent and higher tenant allowance packages, in lieu of reduced rental rates. Due to the hesitancy of landlords and the increased incentives, the weighted average asking rental rate has decreased only 4.38% or $0.93 per s/f from $21.22 to $20.29 per s/f. The suburban market overall had the greatest decrease of $1.15 per s/f from $19.80 (YE 2022) to $18.65 (YE 2023).

The class A downtown market increased asking rates from $24.82 (YE 2022) to $26.85 (YE 2023) driven by a flight to quality spaces, and some of the bigger vacancies offering the highest rental rates, like 1 Market St., 100 Middle St., and Two Portland Sq. all in $28-$30 per s/f range.

Forecast: Looking ahead to 2024 here are some of our predictions;

• Class B office buildings will continue to be removed from the market with the intent for conversion to residential, hotel or light industrial.

• National and regional tenants continue to give up space.

• Local tenants continue to renew or relocate to similar amounts of space.

• Tenant improvement costs begin to stabilize.

• Vacancy rates will increase across all submarkets.

• Rental rates will decrease, and landlords will continue to subsidize with more concessions to win deals.

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