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Gtr. Portland office market overview - correction is muted compared to other regional office markets

February 04, 2009 - Northern New England

Office leasing in Greater Portland was off sharply for the year. Substantially fewer new lease transactions and renewals, tenant downsizing and overall recessionary fears resulted in a negative net absorption rate, equating to an 8 to 10% overall office vacancy rate. We experienced this reduced demand across all tenant sizes, from below 2,000 to over 20,000 s/f except for institutions and hospitals. Rental rates remained flat or declined, and landlords were compelled to offer considerably more concessions to attract tenants. Overall, however, we feel this market correction is especially muted as compared with other regional office markets.

Sales of mostly medical office buildings continued, but at a slower pace. Sale prices were 5 to 15% less per s/f and cap rates increased by 1.5% for investment properties versus 2007, the height of the market. Supply of quality vacant and investment office buildings has increased materially. Demand has been weak due more to recessionary fears than any other fundamentals.

Large notable office leases included the occupancy of 84 Marginal Way in Portland, a 103,200 s/f, 10-story, Class A medical office property leased by Intermed, P.A. and Drummond, Woodsum and MacMahon. Groundbreaking occurred at Gateway Sq. in Scarborough for Fairchild Semiconductor's new 90,000 s/f Class A LEED Certified building. Notable sales included 1 Cole Haan Dr., Yarmouth, an 85,000 s/f Class A building, and the sale of the 32,000 s/f former Portland Public Market at 25 Preble St. for adaptive reuse as an office building.

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