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Greater Portland market overview: Third quarter perspectives for 2007

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Office Leasing Activity

Leasing activity in the Greater Portland office market showed signs of rebounding in the third quarter, with the number of leases signed increasing by 20% over the same period in 2006. This marks the first positive quarter over quarter change since fourth quarter 2005. However, on a year-to-date basis the results continue to lag. For the first three quarters of 2007, the number of leases signed was down by 29% versus that same period in 2006. Clearly the office leasing market remains in a state of transition. We are buoyed, however, by the positive third quarter results and the increased activity in the large-tenant sector.

Sale / Investment Activity

The market for owner-user properties may have regained its pulse in the third quarter, as activity increased sharply for the first time this year. Owner-user inquiries and showings were up and the general temperament of the market seemed more optimistic. Also increased was the demand for development sites in Portland, as developers/investors are aggressively seeking the next opportunity in the sales arena. One specific area benefiting by investment is the "Western Gateway" section of the Portland peninsula. With major expansion being made by Maine Medical Center and Mercy Hospital, this area is in the spotlight and clearly emerging. Regarding the overall sale/investment market, it remains to be seen if a turnaround is in process. However, the market may be finally recognizing the purchase opportunities available resulting from the recent slowdown and the positive impact of ongoing investment.

New Construction Alternatives Downtown

Within the past year there has been a noticeable increase in available new construction sites on the Portland peninsula. By our estimates, there are at least eleven existing land sites in the downtown and Bayside sections of the peninsula that are viable alternatives for new construction of Class A office product between 50,000 and 150,000 s/f. In aggregate, we estimate those sites could support between 750,000 and 1 million s/f (the majority of the sites are not approved, which could take 12 to 24 months). While a construction boom is not likely on the horizon, there are multiple large-scale tenants surveying this landscape. Interestingly, prior to the construction of the AAA and Intermed buildings along Marginal Way, the downtown Class A sector had not added a new office tower since 280 Fore St. in 2004, and then before that Two Portland Sq. in 1990.

Hotels on the Rise in Southern Maine

Hotel development is increasing in Southern Maine. A 91-room Marriott Courtyard and a 100-room Homewood Suites are coming on-line soon near the Maine Mall, and the Old Port currently has five

sites lined up for possible hotel development with extended stay now being added to the downtown mix. Windham recently approved an 80-unit MicroTel (the first flag hotel in that area), York has a MicroTel planned, Auburn has a Hilton Garden Inn under construction near the Auburn Mall, and a Holiday Inn Express recently opened in Freeport. Experiential tourism is also a new trend - L.L. Bean is planning to integrate hotel development into its 700-acre "theme park" expansion and the Cabela's model could include up to 200 units in Scarborough. Even discussions around the redevelopment of the Brunswick Naval Air Station have included aspects of a resort hotel.

James Harnden is president, Roxane Cole is principal, Matthew Barney is a broker, Darren Hebold is a sales agent, and Danika Babcock is an associate with Ram Harnden Commercial Real Estate, Portland.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540