



2018 Greater Portland Office Market Survey



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2017 marked the 7th consecutive year of vibrant growth in the Greater Portland office market, punctuated by new construction, increased sale pricing, and lower vacancy rates. Depending on your vested interest in the market, there can be two sides to this unprecedented expansion of the local economy. The positives for landlords are increased rental rates and parking costs, which are conversely the negatives for tenants. Downtown remains hot, but equilibrium may be on the way.

Vacancy, Absorption and Asking Rental Rates

Overall vacancy dropped sharply for the year, down by one-third to 5.58% (lowest in a decade). Corresponding **net absorption was positive by nearly 300,000 SF**, an unparalleled watermark since 1999 when Unum Corp. expanded their campus with the construction of Home Office III. By market, downtown vacancy declined for a 6th consecutive year, now at 7.52%. The Class A sector drove results, dropping .82% to 4.04% and now nearly one-quarter of its all-time high of 15.2%.

As anticipated, vacancy in the Suburban market declined sharply with the sale of One Riverfront Plaza to Maine Medical Center, removing nearly 140,000 SF of available space. The result was a drop of 4.83% in vacancy to 3.92%.

The suburban Class A sector is now at a 10-year low of 3.26%, absorbing an astonishing 6.82% in 2017 or 168,813 SF.

Asking rental rates remained level with the prior year at an aggregate rate of \$17.02/SF and still slightly above both 5-yr and 10-yr averages. Interestingly, the Class A markets were in contrast, with suburban asking rents up

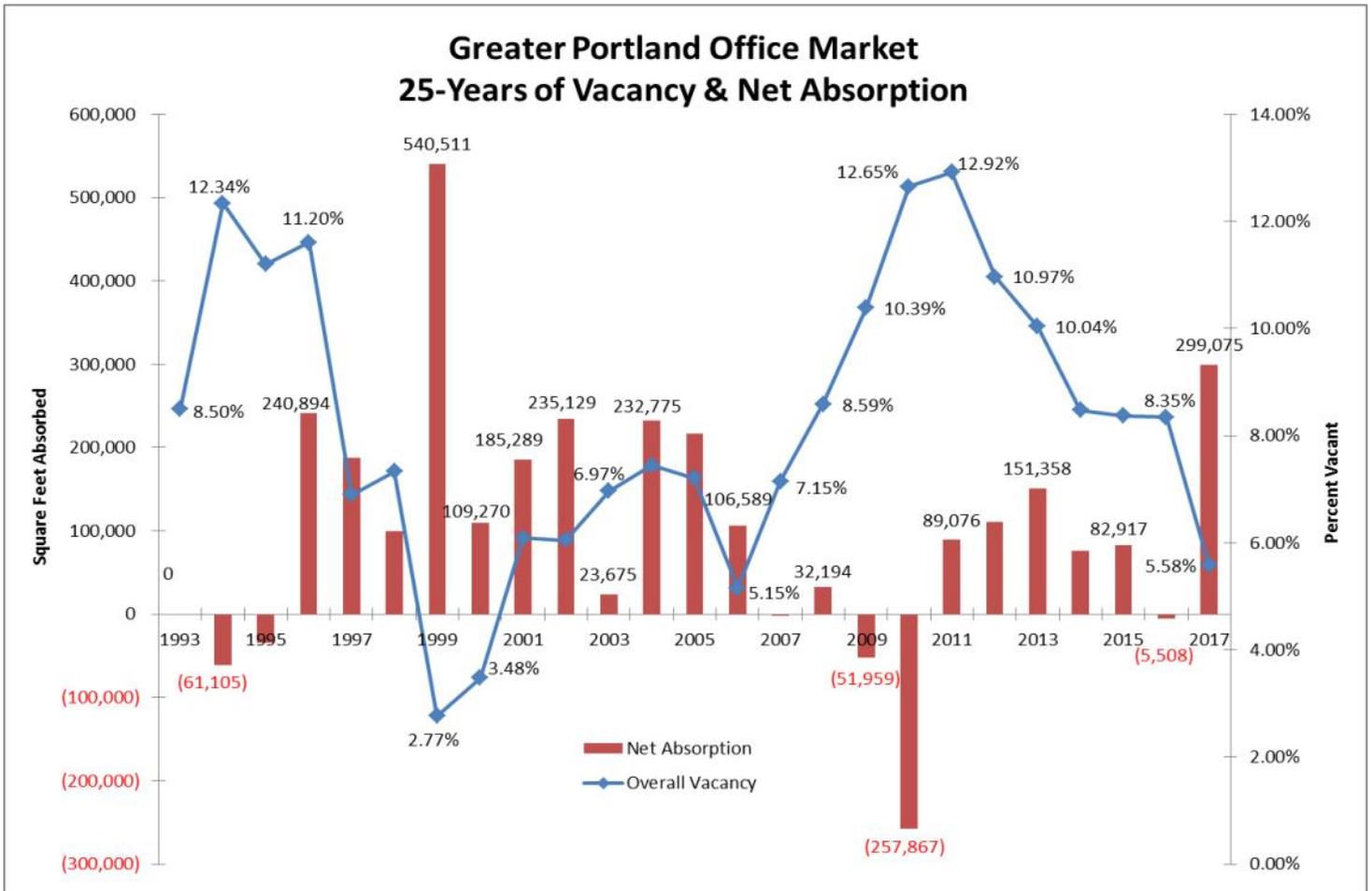
by 10% to \$20.91/SF and downtown rents lower by 11% at \$19.87/SF.

An interesting item to note is the impact a section of Congress St. has on asking rents, specifically vacancies at 465, 477, 482, 510 and 511 Congress Street. This cluster of mostly Class B properties weighs heavily on the downtown sector, and is a noticeably different office product than Old Port and Financial District buildings. Without this cluster, Class A asking rents increase 6% to \$21.04/SF and Class B jumps 17% to \$19.18/SF. In total, downtown asking rents increase to \$19.57/SF or a jump of 15% without the impact of these buildings.



GREATER PORTLAND OFFICE MARKET -- YEAR-END 2017							
	Rentable Sq. Ft.	Available Sq. Ft.	Direct Vacancy	Sublease Sq. Ft.	Overall Vacancy	Absorption Sq. Ft.	Asking Rent MG/Sq. Ft.
Downtown							
Class A	1,712,887	57,382	3.35%	11,903	4.04%	3,291	\$19.87
Class B	2,929,727	269,193	9.19%	10,795	9.56%	39,775	\$16.34
Subtotal	4,642,614	326,575	7.03%	22,698	7.52%	43,066	\$16.96
Suburban							
Class A	2,474,461	70,037	2.83%	10,744	3.26%	168,813	\$20.91
Class B	2,950,338	131,633	4.46%	-	4.46%	87,196	\$15.08
Sub-Total	5,424,799	201,670	3.72%	10,744	3.92%	256,009	\$17.11
TOTALS	10,067,413	528,245	5.25%	33,442	5.58%	299,075	\$17.02

Vacancy, Absorption and Asking Rental Rates *(continued)*



Leasing activity dropped 18.8% in 2017, the first decline in three years. The 2nd half of the year posted the majority of the loss, down 26% from the same period in 2016. While it is too early to predict anything, what is becoming more evident is that tenant activity in the 2,000 to 4,000 SF range is noticeably down. Brokers are finding less showings/interest in this range, and the reason why isn't all that evident.

Conversely, there continues to be a lack of large floorplates for tenants seeking 10,000 SF or more of contiguous space. Certify subleased 12,500 SF at One Monument Square, removing the last large floorplate downtown.

The downtown office market expanded by 47,734 SF in 2017 with the construction of 16 Middle Street. Tilson Technology and Maine Media Partners signed leases to relocate here, leaving vacancy of 16,128 SF.



Looking Ahead

New Construction, Vacancies, New Tenants in 2018

- **The downtown Class A office market will expand by at least 6%** in the new year with the addition of 100,000 SF at Hancock/Thames Streets. This 0 Hancock Street, LLC project is comprised of 90,000 SF of office space (new headquarters for WEX) plus 10,000 SF of retail.
- **The suburban market will add 25,100 SF** this year when the redevelopment of the Elks site is completed at 1945 Congress Street by Northland Enterprises (Clark Insurance is the tenant). Also impacting the suburbs will be new vacancy of 49,500 SF at 1 Davis Farm Road once FairPoint consolidates to 5 Davis Farm Road in April.
- **Two large, Class A office-tenants are currently searching** the market for between 60,000 and 120,000 SF, with downtown as the focus. Redevelopment projects at Portland Foreside (Eastern Promenade) and 385 Congress Street (former Press Herald Print Facility) are the two most viable options. Expansion of office space will likely continue.



Downtown Parking Dilemma

An economics lesson on supply and demand is in full-force downtown, where parking for "A" garage space is already at an all-time high of \$170/month/space and looks to jump to \$180 this year. Prices will likely rise further - why?

- Supply is down due to the redevelopment of multiple smaller surface lots into residential projects, which (a) removes existing parking from the market while (b) adding the need for more parking with the expansion of housing.
- New office construction continues downtown, with large projects in-process and more planned to try to satisfy growing demand.
- Demand is further impacted by the expansion of Retail, Hospitality and Restaurant sectors downtown. If you live or work downtown you are all too familiar with the impact these uses have on parking.

The concept of \$200/month parking is not an unrealistic thought.

Matthew Barney has 18 years of experience in the Greater Portland commercial real estate market and is recognized in providing comprehensive market data and analysis allowing him to effectively and professionally represent national, regional and local clients a they make informed business decisions.

Matthew's approach to commercial brokerage is unique and he is adept at analyzing the requirements, distilling the results, and providing strategic recommendations that are valued by his clients.



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