# Greater Portland Office Market Survey

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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 as bumpy a ride as 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). In this market most recently, WSP Engineering and Prudential are a few examples.

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

Most executives and business owners we have talked to would prefer that employees are in the office at least 4 days a week. However, given the low unemployment rate and relatively equivalent productivity, they are willing to allow employees to work a hybrid schedule usually three days in the office and two days from home. While no one believes we will ever get back to a pre-pandemic work schedule, the hope is employees will eventually be in the office at least 4 days a week. This shift in the employee work schedule has had a significant impact on overall vacancy rates and lease rates.

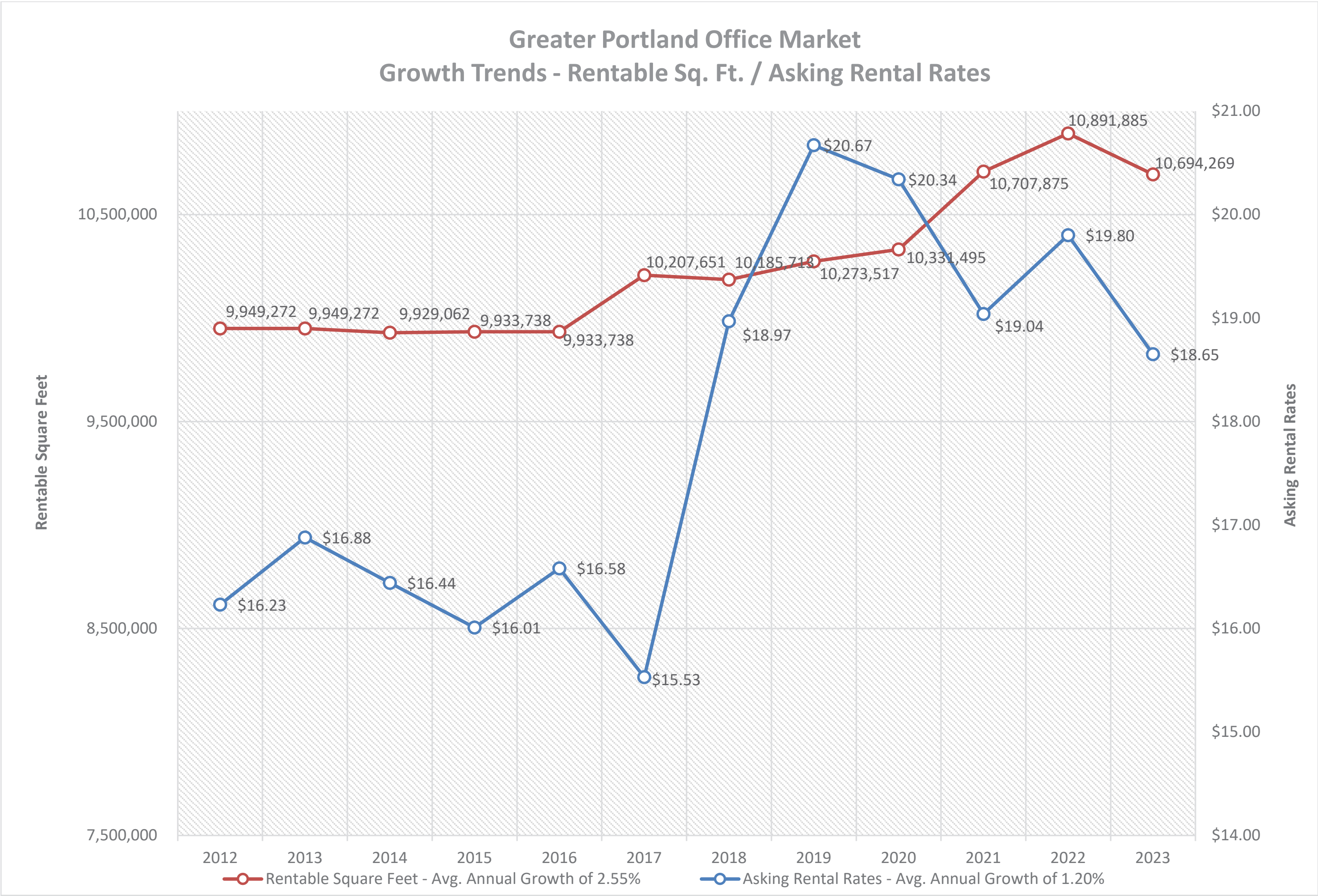
Across all submarkets this year, high construction costs and tenant's desires for shorter term leases made it difficult for landlords and tenants to come together on deals. We do expect to see building material costs comes down, but the labor rates have significantly gone up over the past 3-5 years. This makes it hard for anyone to forecast construction pricing coming down, but the hope is for stabilization.

**LOCAL & REGIONAL ECONOMIC INDICATORS**

| | Maine | National | |
|---|---|---|---|
| **Unemployment** | 3.0% | 3.7% | November 2023 |
| **GDP** | 3.5% | 3.9% | December 2023 |
| **CPI - All Items** | 2.6% | 3.4% | December 2023 |

*US Bureau of Labor Statistics and Local Area Unemployment Statistics Program (LAUSP)

** CPI of 2.6% is for the entire Northeast Region

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# OFFICE MARKET SURVEY

## 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%

Contributing to the increased Suburban vacancy rate was the 22,000 SF vacated at 300 Southborough Drive by United Health Care who left the market completely, and another 22,000 SF that was put on the market by Brockway Smith for office space they are not using at their facility at 7 Rand Road.

The majority of the overall suburban vacancy increase can be attributed to over 125,000 SF of sublease space added to the Class B market, largely at 5 Davis Farm Road from Consolidated Communications. (83,272 SF).

Downtown the Class A market increased vacancy rates are attributable to sublease space, vacated by Berry Dunn, at 100 Middle Street, hitting the direct availability, and Prudential's downsizing at Two Portland Square. The ongoing conversion of Class B Office buildings is the largest effect of downward pressure on those vacancy rates. In 2023, over 245,400 sf 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.

Coincidentally, office to self-storage conversions that were planned in the Suburban market have been put on hold, increasing vacancy rates there. More landlords will need to consider Suburban conversion opportunities as the vacancy rates continue to climb.

Tenants vacating the market and reducing space has increased the overall available sublease space to 482,284 sf as of YE 2023, accounting for 32% of the overall vacancy rate. Since YE 2021, the amount of sublease space on the market has increased more than 2.5 times.

### SIGNIFICANT TRANSACTIONS


**2211 Congress Street, Portland**

Sappi North America leased 37,537 SF.


**100 Middle Street, Portland**

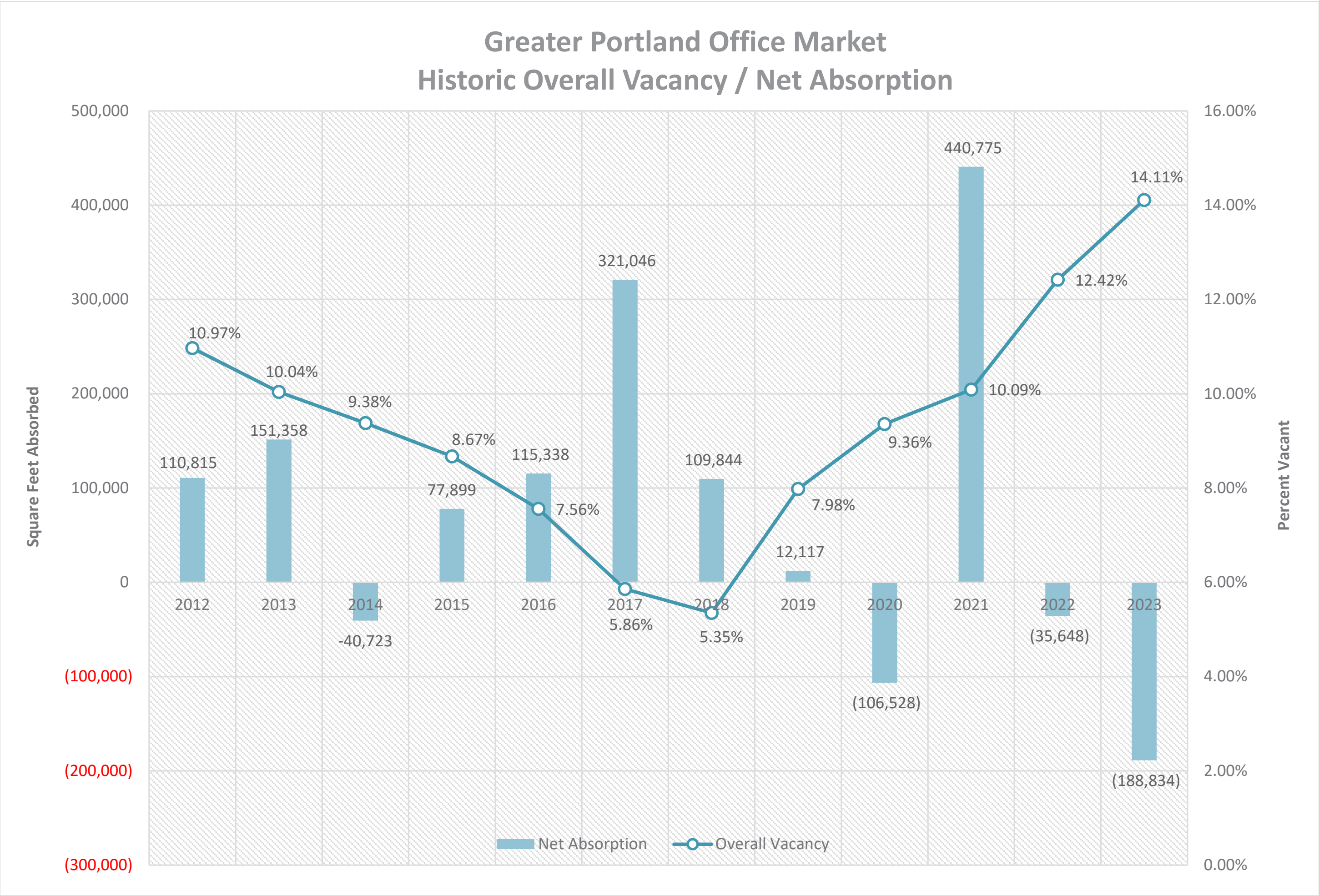
General Services Administration leased 28,300 SF.


**25 Pearl Street, Portland**

PTC leased 21,518 SF.


**One City Center, Portland**

Avangrid leased 16,462 SF.

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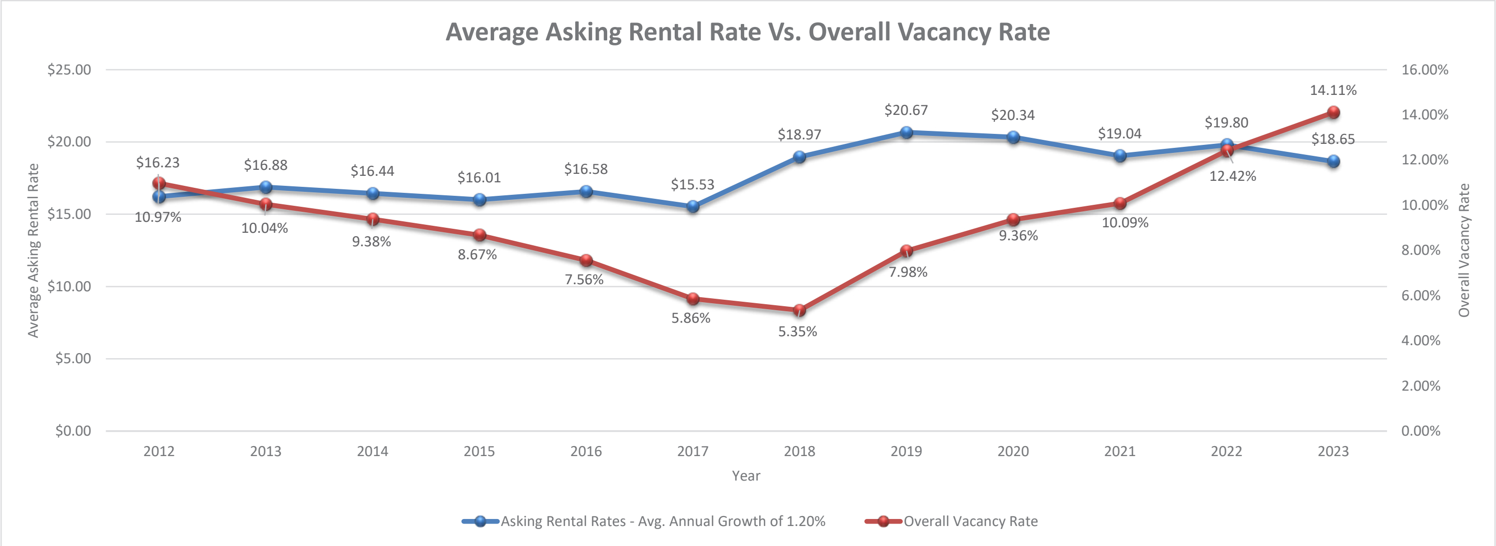
# LEASE RATES

With higher vacancy rates, landlords have been more aggressive and have been 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 approximately only 4.38% or $0.93 per square foot from $21.22 to $20.29/PSF. The Suburban market overall had the greatest decrease of $1.15/PSF 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 of product, and some of the bigger vacancies offering the highest rental rates, like 1 Market Street, 100 Middle Street, and Two Portland Square all in the $28-$30/PSF range. It is important to note that these rates are for direct deals only and do not include sublease asking rates. They are also modified gross asking rates and are trued up for any NNN offerings.

Even though Landlords are hesitant to reduce their asking rates, the sharp increase in vacancy rates in the Suburban market has facilitated a decrease in the asking rates in those submarkets of almost 6% from $19.80/PSF (YE 2022) to $18.65/PSF (YE 2023).




# FORECAST

In 2023, the Greater Portland office market struggled with rising vacancy rates, increased Landlord concessions and a significant drop in investment sale transactions. One bright spot was the owner/user market, where buyers regularly competed with multiple offers, and sometimes even going over asking price to win deals. Looking ahead to 2024 we expect the following:

- Class B office buildings to 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.

# GREATER PORTLAND OFFICE MARKET SURVEY YEAR END 2023

| | Year End 2022 | | | | | Year End 2023 | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Rentable Sq. Ft. (RSF) | Direct Sq. Ft. | Direct Vacancy Rate | Sublease Sq. Ft. | Overall Vacancy Rate | Rentable Sq. Ft. (RSF) | Direct Sq. Ft. | Direct Vacancy Rate | Sublease Sq. Ft. | Overall Vacancy Rate | Absorption Sq. Ft. | Weighted Average |
| **DOWNTOWN** | | | | | | | | | | | | *MG* |
| *Class A* | 2,248,671 | 97,758 | 4.35% | 111,134 | 9.29% | 2,180,271 | 137,289 | 6.30% | 119,027 | 11.76% | (107,931) | $26.85 |
| *Class B* | 2,578,584 | 298,463 | 11.57% | 15,068 | 12.16% | 2,466,891 | 209,891 | 8.51% | - | 8.51% | (23,121) | $21.33 |
| Sub-Total | **4,827,255** | **396,221** | **8.21%** | **126,202** | **10.82%** | **4,647,162** | **347,180** | **7.47%** | **119,027** | **10.03%** | **(131,052)** | **$23.51** |
| **SUBURBAN** | | | | | | | | | | | | |
| *Class A* | 2,516,033 | 303,875 | 12.08% | 147,537 | 17.94% | 2,516,033 | 355,851 | 14.14% | 167,242 | 20.79% | (51,976) | $22.33 |
| *Class B* | 3,523,456 | 309,880 | 8.79% | 69,581 | 10.77% | 3,531,074 | 323,304 | 9.16% | 196,015 | 14.71% | (5,806) | $14.59 |
| Sub-Total | **6,039,489** | **613,755** | **10.16%** | **217,118** | **13.76%** | **6,047,107** | **679,155** | **11.23%** | **363,257** | **17.24%** | **(57,782)** | **$18.65** |
| TOTAL | 10,866,744 | 1,009,976 | 9.29% | 343,320 | 12.45% | 10,694,269 | 1,026,335 | 9.60% | 482,284 | 14.11% | (188,834) | $20.29 |

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## The Importance of Tenant Representation : What is it? And why do you need it?

Experts in the Market: Dunham Group Tenant Representatives are well-versed in the commercial real estate market. They know the ins and outs of all the inventory, have good relationships with local owners, landlords and other brokers, and are up to date on local and regional market trends. This expertise can be invaluable in helping the tenant make informed and educated decisions.

Negotiation Skills: Negotiating a lease agreement with a landlord or landlord broker can be a complex and sometimes adversarial process. Dunham Group Tenant Representatives have excellent negotiation skills and can secure favorable lease terms, always saving the client money and time in the long run.

Protection of Your Interests: Tenant Representatives are fiduciaries for their clients. This means they have a legal and ethical obligation to act in your best interest. They ensure you get a fair deal and that the lease agreement is favorable and protective of your business and interests.

Cost-Effective Services: Most do not know that hiring a tenant representative isn't likely to add to your expenses, in many cases, their services are cost-effective, as Tenant Brokers are almost always paid directly by the Landlord.

When choosing a Tenant Representative, the Dunham Group knows how important it is to have someone who not only has experience in commercial real estate, but a strong track record in getting deals done. Reach out today to start a conversation with one of our Tenant Representative Brokers.

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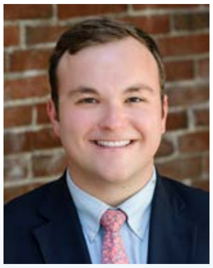

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