

MEMORANDUM

TO: Cape Elizabeth Planning Board
FROM: Maureen O'Meara, Town Planner
DATE: April 14, 2021
SUBJECT: Commercial space market assessment

Introduction

A member of the Planning Board has asked for information from commercial realtors about commercial space market conditions and how much change is expected post-covid.

Data Source

Realtors are selling a product, and inherently skew to be optimistic about future market conditions. The Planning Board has received comments from several commercial real estate brokers, including Greg Boulos (The Boulos Company), Brandon Mitchell (Malone Commercial Brokers) and TC Haffenreffer (The Dunham Group).

The Boulos Company annually collects real estate data and provides a market forecast. Because the data is not collected in relation to a specific project, it should be a relatively objective assessment of market conditions.

Class A and Class B office space

The following information is from the [2021 Greater Portland Market Outlook](#) prepared by the Boulos Company.

The Cape Elizabeth Town Center is too small to be included in the report as a suburban submarket. The chart does include a category for "all suburban markets" which might provide some insight into how commercial space in the Town Center will compete.

The report notes that existing leased space may be offered to sublease (gray space) in the short term, so actual vacancy rates may be higher. As a reference, The Portland downtown market typically absorbs 40,000± sq. ft. of space annually and there is 270,000± sq. ft. available now, plus gray space.

LOCATION	CLASSIFICATION	TOTAL RENTABLE 2020	AVAILABLE SF 2019	VACANCY RATE 2019	AVAILABLE SF 2020	VACANCY RATE 2020	SUBLEASE 2020
DOWNTOWN PORTLAND	Class A	2,195,126	8,500	0.40%	144,893	6.60%	60,911
	Class B	2,138,604	169,976	7.72%	284,900	13.32%	19,323
	Subtotal	4,333,730	178,476	4.14%	429,793	9.92%	80,234
SUBURBAN PORTLAND	Class A	993,164	172,180	17.31%	97,421	9.81%	-
	Class B	932,314	71,790	7.70%	69,639	7.47%	3,620
	Subtotal	1,925,478	243,970	12.66%	167,060	8.68%	3,620
FALMOUTH, CUMBERLAND, YARMOUTH	Class A	799,074	61,626	7.09%	10,398	1.30%	-
	Class B	238,039	16,222	6.71%	15,602	6.55%	-
	Subtotal	1,037,113	77,848	7.01%	26,000	2.51%	-
WESTBROOK	Class A	521,923	-	0.00%	-	0.00%	-
	Class B	212,661	2,000	0.94%	11,000	5.17%	-
	Subtotal	734,584	2,000	0.34%	11,000	1.50%	-
MAINE MALL AREA	Class A	1,652,682	206,773	12.58%	179,637	10.87%	119,755
	Class B	385,290	15,251	3.96%	14,869	3.86%	-
	Subtotal	2,037,972	222,024	10.94%	194,506	9.54%	119,755
SCARBOROUGH, SOUTH PORTLAND	Class A	417,731	25,161	6.59%	21,299	5.10%	-
	Class B	526,264	4,000	0.76%	-	0.00%	-
	Subtotal	943,995	29,161	3.22%	21,299	2.26%	-
ALL SUBURBAN MARKETS	Class A Suburban Total	4,384,574	465,740	10.90%	308,755	7.04%	-
	Class B Suburban Total	2,294,568	109,263	4.76%	111,110	4.84%	-
	Subtotal	6,679,142	575,003	8.75%	419,865	6.29%	-
MEDICAL	Class A	992,925	15,857	1.60%	-	0.00%	8,667
	Class B	273,090	2,567	0.85%	6,572	2.41%	-
	Subtotal	1,266,015	18,424	1.42%	6,572	0.52%	8,667
Class A Downtown, Suburban & Medical		7,572,625	490,097	6.64%	453,648	5.99%	189,333
Class B Downtown, Suburban & Medical		4,706,262	281,806	5.87%	402,582	8.55%	22,943
Total Office Space and Vacancy - Direct Lease		12,278,887	771,903	6.34%	856,230	6.97%	-
SUBLEASE SPACE		-	39,489	0.32%	212,276	1.73%	-
TOTALS		12,278,887	811,392	6.66%	1,068,506	8.70%	-

that has continued for the last 7 years as the Class A and Class B vacancy rate fell to 0.52% with just two small vacancies at the time of our survey. Maine Medical Center is undergoing two major expansion projects at the Portland and Scarborough campuses, otherwise larger medical office users did not make any major moves in 2020. Currently under construction is the 62,000± SF VA Maine outpatient clinic on West Commercial Street in Portland which will be added to the market in 2021. While demand for medical office space fell slightly with the overall office market, smaller private practices continue to struggle to find existing medical office space and are forced to convert standard office space or pursue new construction, both at a significant expense. Medical occupiers had to make quick, temporary changes to their facilities once the pandemic hit and it is yet to be seen how the pandemic will affect large-scale medical office space in the years to come. It is expected that the same medical office functions will require more space which may result in expansions and new construction supporting another strong year for this market in 2021.

Landlords and tenants alike in the office market want to know what the future of office space will look like and how that may affect occupancy rates in the future. It might be too early to tell and the big question is whether demand will return when office occupiers can plan better in their space programming. Almost half the lease transactions in 2020 were renewals indicating tenants preferred to stay put in 2020 which may lead to more movement within the market in 2021. It is unlikely physical offices will be affected like they will be in larger metropolitan cities and there will be a return of employees to the office in Greater Portland.

However, the downtown market can unlikely absorb the 270,000± SF of additional vacancy created last year when the market has only absorbed about 40,000± SF per year on average over the past three years. The downtown rates will go down but not back to 2017-2019 levels, at least within the next 12 months. In addition, there do not appear to be any major vacancies on the horizon in the suburban market and the large amount of sublease space doesn't hit the direct market in 2021 so, without any surprises, we can expect suburban rates to remain steady, perhaps improve slightly. In all, we can expect a little more stability in the office market in 2021 and hopefully, fewer surprises.



What to Expect Post-Covid

The full impact of COVID on Maine's commercial real estate market remains to be seen, and continued softening is expected over the next 12-18 months. On the plus side, we hadn't overbuilt in the previous upswing, so there isn't a large swath of new supply to be absorbed. Another potential upside, a significant number of working-age adults have moved to Maine since the start of the pandemic, and it will be exciting to see what they add to the business landscape in our state. While many are working from home for the time being, it's not unrealistic to think they may eventually join our local companies, adding to our workforce, or start their own ventures one day.