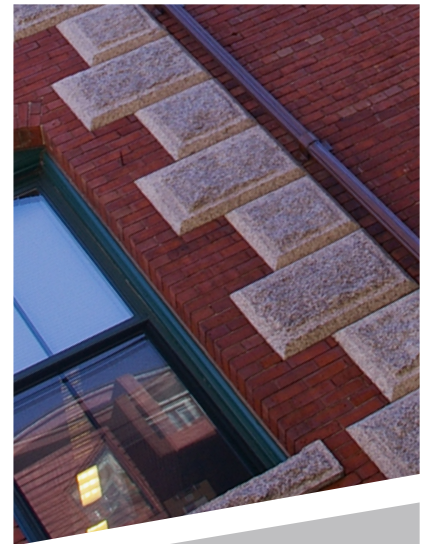




GREATER PORTLAND OFFICE MARKET REVIEW

By: Thomas Moulton, CCIM SIOR & Katie Allen, Esq. - October 2012



NAI The Dunham Group
Commercial Real Estate Services, Worldwide.

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The Greater Portland Office Market* took a significant hit over the last 5 years. Vacancy rates doubled between 2007 and 2011, lease rates took a nose dive, new construction was virtually non-existent and investment market sales were stagnant to say the least. We are happy to report that so far 2012 seems to be the year of the turnaround. Overall leasing activity is up, vacancy rates have seen a slight decline (particularly in suburban areas) and owner/user and investment buyers alike seem to be coming out of hibernation to take advantage of historically low interest rates. Perhaps most importantly, people's perception of the market has improved and the overall market outlook is far more positive than it was even 6 months ago. We still have a long road to get back to the pre 2006 market, but we seem to be on the right path.

The following survey will focus on the major components of the Greater Portland office market and will also provide some predictions for the year to come.

* For our purposes, we have defined the Greater Portland Office Market to include Portland, South Portland, Scarborough, Westbrook, Gorham, Falmouth, Cumberland & Yarmouth.



Inventory

- According to the New England Commercial Property Exchange (NECPE), there is over 3.1 million SF of available office space in Cumberland County. There are currently over 600 office listings in Greater Portland alone.
- The 2,000 SF - 4,000 SF tenant is still the norm in Greater Portland and spaces within this square foot range are generally taking between 6-9 months to fill. Class B & C spaces can take longer in some areas. Larger spaces (5,000 SF - 50,000± SF) will likely sit vacant for at least 9 months. Even longer if the property owner is not willing to provide turn-key deals to prospective tenants.
- Vacancy rates range from a high of approximately 13.5 ± in Downtown Portland to a low of about 6% in the Falmouth-Yarmouth corridor. Although these numbers are a bit lower than those seen in 2011, there is still an enormous amount of inventory available.
- Leasing activity has seen an uptick since 2011, but with so much available inventory, we are still lacking the level of demand necessary to have a considerable impact on vacancy rates.



Landlord Considerations

- Most landlords understand that the level of inventory requires them to be extremely competitive. Tenants will often create competition between 2 or even 3 building owners to ensure they are getting the best deal.
- As construction costs continue to rise, small to medium sized property owners struggle to provide turn-key buildouts. As a result, we have seen Landlords pay up to a year of free rent to secure quality tenants. In addition to free rent incentives, Landlords across the board are agreeing to lease rates \$1.00 to \$3.00 below asking rates.
- Landlords have become much more proactive in this market and in many cases will approach tenants well in advance of a lease expiration to negotiate early renewals.
- More recently, some of the larger property owners and owners of Class A space; seem to sense the turnaround in the market and are requiring more of prospective tenants including increased security deposits, participation in build-out costs and longer lease terms.

Tenant Considerations

- It is still a tenant's market overall. In most circumstances, particularly in Class B buildings, the tenant is in control of the deal.
- Quality tenants looking to renew or expand in their current locations are able to achieve more favorable lease terms, return of security deposits and tenant improvements.
- Tenants looking for Class A space or turn-key buildout are starting to see more push back from Landlords who feel that they can hold out for the better tenant or for the more appealing deal.
- Tenants can still expect to be required to personally guarantee leases, provide full financials and often pay hefty security deposits.

Growing & Healthy Sectors

Tech Market

Over the past year we have seen a significant increase in the number of tech related lease transactions. At one property alone (30 Danforth Street, Portland), we completed 4 lease transactions in less than 6 months with tech-related uses totaling close to 13,000 SF. Tech tenants also seem to be one of the only sectors where growth is the norm rather than the exception. We just completed a lease with a web designer that went from 1,200 SF to 4,000 SF and anticipates needing additional space by the end of her lease term.

Health & Wellness

We have seen a huge increase in the number of health/wellness related tenants over the past year. From nutritionists, personal trainers, boutique gyms, yoga studios, alternative medicine practices, psychologists and therapists. Landlords are often leery of these tenants, but for the most part they seem to be doing very well. The health and wellness sector shows no sign of slowing down and is one of Greater Portland's up and coming markets.

Medical Office

The medical office market remains healthy and consistently experiences the lowest vacancy rate of all market sectors. Medical tenants are highly sought after as they are much more likely to sign longer term leases and consistently pay top-of-market lease rates.



Inventory

- One of the biggest changes the market has experienced over the past several years is the complete lack of quality investment property inventory. Sellers are very hesitant to sell quality investment properties due to the absence of alternative means of investment.
- Recently the demand for investment properties has increased dramatically. Slowly but surely, property owners see the market improving and realize that buyers will pay a premium for quality investments. In addition, buyers seem much more confident in the state of the market and are more willing to spend some of the cash they have held onto during the recession.
- We are starting to see multiple offer situations on investment properties much more frequently. Sellers can feel confident that if priced realistically, they can achieve their asking price within a 3-6 month time period.
- Cap rates range anywhere from 7% for single tenant net leased and multi-family properties to 12% for suburban multi-tenanted properties.
- Multifamily properties and large residential complexes remain a very strong investment market sector. These properties are generally on the market for a matter of days before an offer is made and cap rates for multi families are some of the lowest in the market.

Financing

- Over 75% of the investment property transactions that we have completed over the past year were cash deals. Although banks seem eager to lend and have the ability to do so, stricter income parameters, larger down payment requirements and low appraisals have limited the buying pool significantly.
- All indications are that interest rates will remain low and the smaller regional and local banks are really starting to become more aggressive.

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OWNER OCCUPIED PROPERTIES

- The owner user market has been very soft over the past several years but is finally seeing a resurgence thanks to historically low interest rates and consumer confidence.
- In many instances, the cost of leasing will be much greater than the cost of purchasing and occupying a property.
- Businesses that have weathered the economic downturn well and feel confident about their balance sheets are now more likely to give up the money necessary for a down payment.
- For businesses that still struggle with the 20-30% down payment, SBA financing has become increasingly popular due to very competitive interest rates and more streamlined application processes.
- An increase in owner/user sales is a very positive sign. In a state where small businesses are the norm, it is a very positive sign for the economic recovery of Maine.



After several years of little to no new development and very few redevelopment projects in the works, Downtown Portland currently has several major projects that will come online within the next 18-24 months. In addition to the projects listed below, there are several other smaller scale planned developments throughout the Greater Portland area. The majority of the slated projects involve some kind of residential component and also to a surprising number of hotel developments.



JB Brown & Sons

135 W. Commercial Street: JB Brown & Sons has initial approvals for a 4 story addition to the Star Match building located at 135 W. Commercial Street in Portland. The projected is currently designed to be a mixed use property consisting of 12 residential units, 9,000 SF of office and 6,500 SF of retail.



321 Commercial Street: JB Brown & Sons is also planning a redevelopment of property located between York Street and Center Street in Portland. The property is currently designed to include a 7,200 SF retail/restaurant space, 130 hotel rooms and 14 rental apartments.



Bayside Area – Federated Companies

The Federated Companies just recently received approval from the City of Portland to develop 3.25 acres located on Somerset and Elm Streets in Portland. Plans for the project include approximately 97,161 square feet of retail; a 96,000 square foot full-service hotel; 554 luxury housing units, and a 1,060 space public parking structure.

NEW DEVELOPMENTS & REDEVELOPMENTS



Thompson's Point

The Forefront at Thompson's Point will consist of up to 300,000+ sf of build-to-suit mixed-use office, medical office and restaurant space and will include a sports complex, convention center and hotel. Located on over 29 acres, the \$105 Million project has approval from the City of Portland but requires signed leases from tenants in order to break ground. So far, to our knowledge, there are no signed leases for the project.



Eastland Park Hotel

The Eastland Park Hotel located on High Street in Portland is currently undergoing a \$39M redevelopment. The hotel will be re-flagged as the The Westin Portland Harborview.



390 Congress Street, Portland

Local developers are seeking approval to redevelopment the former Portland Press Herald office building into a boutique hotel. Plans have been submitted to the City of Portland. The owners will be seeking tax credit financing to complete the deal which will likely push construction commencement out into 2014.



Bay House

Located on the site of the old Village Café between Middle and Federal Street, The Bay House will offer 42; 1, 2 and 3 bedroom residential condominiums. Construction should begin within the next 1-2 months.

We feel confident that we have seen the bottom of the market and that things will continue to gradually improve in all sectors. As vacancy rates slowly decline, Landlords will be less inclined to offer the unprecedented incentives that we have seen over the past few years. Tenants will continue to have the upper hand for the foreseeable future, but they will have to start paying closer to asking rates in order to get the deal structures they want. Tech, health/wellness and medical will continue to be the sectors to watch.

The demand for investment properties will continue to grow and hopefully as the overall market improves more, sellers will start to list quality investment properties. As a result, we may begin to see the return of the 1031 exchange buyer.

As long as interest rates remain low and banks continue to get behind small business, the owner/user market will continue to improve.

The Greater Portland Market, and particularly the downtown district, will see some exciting changes over the next several years.

The overall feel of the Greater Portland Office Market has improved over the past year and we feel the slow improvement will continue into 2013 and beyond.



Thomas W. Moulton, CCIM, SIOR

Professional Experience

(1996 - present) **NAI The Dunham Group, Partner/Broker.** Portland, Maine
Specializing in office, retail and investment properties throughout Southern and Central Maine. Client representation includes; landlord, tenant, buyer, seller and developer.

Professional Designations

2002 - Awarded "Commercial Broker of the Year" by the Maine Commercial Association of Realtors.

2000 - Awarded the "SIOR" designation (Society of Industrial and Office Realtors).*

1998 - Awarded the "CCIM" designation (Certified Commercial Investment Member).*

* One of three people in Maine to hold both designations.

Professional Organizations

MCAR (Maine Commercial Association of Realtors) - Past President
MEREDA (Maine Real Estate and Development Association) - Past Director
MAR (Maine Association of Realtors)
NAR (National Association of Realtors)
Portland Apartment Owners Association

Education

1996 - San Diego State University. Master of Business Administration (M.B.A.), concentration in Commercial Real Estate Finance and Development.
1994 - University of Maine. Bachelor of Science (B.S.), Concentration in Finance.

Military Experience

1988 - 1991 United States Army
Specialization: Combat Engineer/Paratrooper. Earned the Rank of Sergeant and the Army Commendation Medal.

Extracurricular

Sailing, waterskiing, mountain climbing, traveling, scuba diving and mountain biking.

Katherine B. Allen

Professional Experience

(2005-Present) Associate Broker, NAI The Dunham Group. Portland, Maine
Specializing in office, retail and investment properties throughout Southern and Central Maine. Representation includes: landlord, tenant, buyer, seller and developer.

(2004-2005) Associate Attorney, Desmond & Rand PA. Westbrook, Maine
General practice attorney concentrating on real estate.

(2000-2001) Office Manager, Mortgage Department, TD Banknorth

Professional Organizations

MCAR (Maine Commercial Association of Realtors) - Board Member
MAR (Maine Association of Realtors)
MSBA (Maine State Bar Association)
Portland Regional Chamber (PROPEL)

Education

2004 - University of Maine School of Law. Portland, Maine
doctorate, cum-laude

1999 - College of Charleston. Charleston, South Carolina
Bachelor of Art, History

Extracurricular

Boys & Girls Club Volunteer
Greater Portland Land Marks Volunteer
Running