

MALONE COMMERCIAL BROKERS

Commercial and Investment Real Estate

GREATER PORTLAND

OFFICE AND INDUSTRIAL MARKET SURVEY



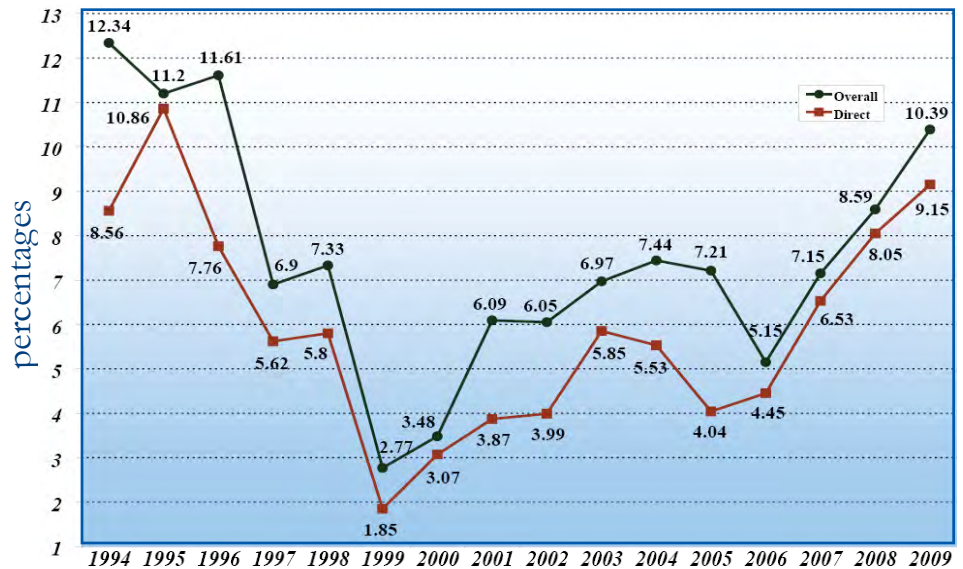
Authors: James Harnden
Matthew Barney

Published 2010

Office Market Survey

2009 was a challenging year for the Greater Portland office market. Overall vacancy increased by nearly two points to 10.39%, ending the year in double digits for the first time since 1996. Furthermore, sub-lease vacancy increased three-fold to 120,000 sf, with an additional 150,000 sf of shadow space possible for 2010. On a brighter note, sales were active relative to recent years, and leasing transactions were equal to 2008 albeit for shorter terms, less square feet and lower rents. Small but promising signs of a step forward in this recessionary cycle.

- Downtown overall vacancy remained level with 2008, ending the year at 8.82%. The results differed by class with Class A posting a 3% increase and Class B down 2.2%. The sale of 110 Free St. to Maine Health somewhat skewed results, removing 85,000 sf of Class B vacancy from the survey. Absent that sale, downtown overall vacancy would have increased by nearly 2% for a year-end total of 10.8%.
- Suburban overall vacancy increased sharply in 2009, up 3.5% from 2008 to 11.74%. This represents the highest suburban vacancy rate since the start of our survey in 1993, and only the second time since then to rise above double digits. Both Class A & B sectors contributed to the increase, up 5% and 2% respectively from the prior year.
- The Greater Portland office market expanded 63,000 sf in 2009, solely due to the conversion of 71 US Route One, Scarborough from industrial to office use, 15,000 sf of which is committed to a medical user. This represents roughly one-third of the markets 10-yr average annual growth of 195,000 sf. This market now stands at 9.77 million rentable square feet.



- Net absorption was negative in 2009 by 51,959sf or 0.53%, the first time with noticeable negative absorption since 1995. The downtown market posted positive absorption of 40,000 sf with the 110 Free Street sale, offset by 92,000 sf of negative absorption in the suburban market due to multiple new vacancies. The national average for 2009 is expected to be negative by 1.6%.
- In aggregate, asking rentals rates increased 2.75% for the year, with only the Suburban Class A sector posting a reduction resulting from multiple new vacancies there. Nationally, asking rental rates are expected to decline by 12.1% in 2009 and further by 8.5% in 2010.
- The national office market vacancy rate is anti-cipated to end 2009 at 17%, up 2.5% over 2008, with a further increase to 18.3% projected for year-end 2010. Vacancy in the Greater Boston office market ended 2009 at 18.5%, while the local office market vacancy rate was 10.39%.

The fallout of the national economic crisis is now fully impacting commercial real estate markets, with increased unemployment and the lack of available credit at the heart of the issue. Looking ahead we anticipate overall vacancy to increase locally by another 1% to 2% in 2010, with a corresponding posting of negative absorption and a slight reduction in asking rental rates. However, we further predict that 2010 will be the peak of the storm, with a more favorable trend thereafter.

Greater Portland Markets

Falmouth, Gorham, Portland, Scarborough, South Portland and Westbrook

Direct Vacancy

vacant space with no lease in place

Sublease Vacancy

leased space offered for sublease

Shadow Space

leased space soon to be available

MG - Modified Gross Rent

includes taxes, operating expenses and HVAC

NNN - Triple Net Rent

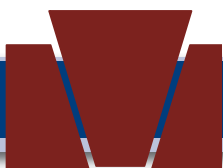
tenant responsible for taxes, operating expenses and HVAC

Absorbtion

net change year to year of total occupied space

Data

all data collected as of 12/1/09



MALONE COMMERCIAL BROKERS

Commercial and Investment Real Estate

Downtown

On the surface 2009 was an active year for the downtown office market. Overall vacancy remained level with 2008; net absorption was positive by 40,000sf; and multiple buildings traded hands including 110 Free St, 465 Congress St, the former Portland Press Herald buildings at 390 and 385 Congress St and the package sale of One/Two/Three Canal Plaza. By class, however, the results conflicted greatly with the Class A sector posting a 3% increase in vacancy and the Class B sector posting a decrease of 2.2%.

The Class A sector was weighed down by an increase in sublease vacancy at 280 Fore St and One Portland Sq, coupled with new direct vacancy at multiple other buildings. While the year over year increase in overall vacancy was 3%, the year-end rate of 7.88% is only 1 to 2 points higher than the 5-yr and 10-yr averages.

More favorable results were found in the Class B sector with a 2.2% reduction in overall vacancy and positive net absorption of 70,000sf. However, these results can be attributed to a single transaction - the sale of 110 Free St to Maine Health effectively removed 85,000sf of vacancy.



9 Donald B Dean Dr.

Looking ahead we see up to 125,000sf of shadow space poised in the downtown sector, roughly one-third of that in Class A and the remainder in Class B. Vacancy rates will rise in 2010. On a positive note, the conversion of the former Portland Public Market into office space will be completed in 2010, adding an additional 43,960sf to the market as the new home for Power Pay.

Suburban

2009 was a challenging year for the suburban office market. Overall vacancy increased by 3.5% with a corresponding loss in net absorption of 92,000sf or 1.74%. A direct cause of the negative results were multiple corporate tenants downsizing square footage. Positively, there were two investor sales in the Class B sector. 56 Northport Dr, Portland sold as did 71 US Route One, Scarborough which converted from light industrial to office use. Also, a full-building leased up by JHA at 9 Donald B. Dean Dr, South Portland.

The suburban Class A sector was the hardest hit in all of our survey, posting an increase in overall vacancy of 5.07%, ending the year at 12.85%, more than double its 10-yr average of 5.91%. There were two significant corporate moves that impacted results on a direct basis. Fairchild gave back the fourth floor at 82 Running Hill Rd, South Portland (26,546sf) and Idexx retracted to their Westbrook campus from 6 Ashley Dr, Scarborough (56,189sf). Additionally, sublease vacancy more than doubled as of year-end, further adding to the negative results.

The Class B sector posted its fourth consecutive year of increased overall vacancy, ending the year up 2% to 10.76%. Not since 2001, and before that 1995, has vacancy in this sector hit double-digits. However, the conversion to office use at 71 US Route One, Scarborough added 48,000sf of new vacancy to this sector, the equivalent of 1.5% of the 2% increase. This is a positive impact on the market.

We know of up to 20,000sf of shadow space that is possible in the spring of 2010. However, we feel that vacancy will stabilize with minimal increases in the coming year.

Greater Portland Office Market Year-End 2009

	Rentable	Available	Direct Vacancy	Sublease Space	Overall Vacancy	Absorption	Asking Rent MG
Downtown							
Class A	1,712,887	107,244	6.26%	27,718	7.88%	(29,911)	\$15.50 - \$25.00
Class B	2,793,305	247,023	8.84%	15,405	9.39%	69,553	\$11.00 - \$21.00
Subtotal	4,506,192	354,267	7.86%	43,123	8.82%	39,642	
Suburban							
Class A	2,480,112	240,614	9.70%	78,018	12.85%	(78,923)	\$14.00 - \$22.70
Class B	2,782,849	299,477	10.76%	-	10.76%	(12,678)	\$13.36 - \$19.95
Subtotal	5,262,961	540,091	10.26%	78,018	11.74%	(91,601)	
TOTALS	9,769,153	894,358	9.15%	121,141	10.39%	(51,959)	

Industrial Market Survey

2009 was a year of reduced expectations for Greater Portland's industrial market, but signs of a turnaround are emerging. Market growth was near zero and vacancy rates increased to levels above 5 and 10-yr averages; however, market opportunities for well-positioned tenants, investors and owner-users are becoming more prevalent.

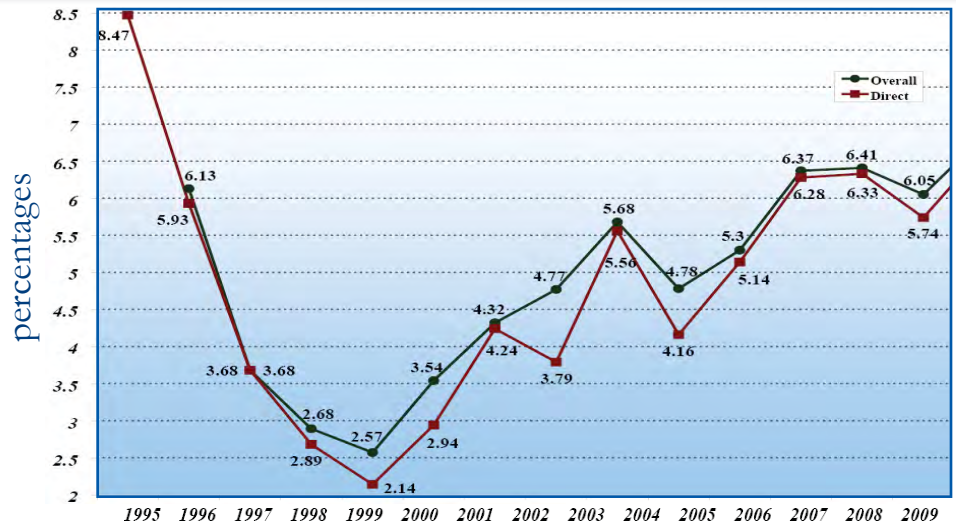
- Overall vacancy increased slightly, ending 2009 at 6.85% vs 6.05% in 2008. Results were mixed by submarket. Falmouth, Portland and So. Portland posted increases and Gorham, Scarborough and Westbrook declined.
- Net absorption was -165,657 SF, -1.11% the first sizable negative posting since 2003. Significant new vacancy in South Portland was the primary contributor, offset by Gorham posting positive absorption of nearly 3%.
- Average asking rental rates declined for the third straight year, closer now to '03/'04 levels. South Portland posted the largest decline, down \$1.00 per sf on average vs year-end 2008.

Gorham

2009 was an improved year in Gorham with nearly 30,000 SF absorbed between 19 Bartlett Rd (owner-user) & 9 Hutcherson Dr (Servpro of Portland). The resulting vacancy decreased by 3 pts, ending at 8.68%. More interestingly, the sale of 17 Gorham Ind Pkwy, a vacant warehouse repositioned for sale/lease, to an aggressive investor group is evidence of finding bottom.

Greater Portland Industrial Market Year-End 2009

	Rentable	Available	Direct Vacancy	Sublease Space	Overall Vacancy	Absorption	Asking Rent NNN
Falmouth	91,781	5,300	5.77%	-	5.77%	(1,440)	\$8.00 - \$11.00
Gorham	1,091,785	94,718	8.68%	-	8.68%	32,000	\$3.75 - \$6.50
Portland	6,477,900	422,507	6.52%	21,194	6.85%	(39,573)	\$2.75 - \$7.25
Scarborough	2,072,361	117,748	5.68%	-	5.68%	26,400	\$4.50 - \$7.25
South Portland	2,767,006	228,740	8.27%	-	8.27%	(216,508)	\$1.95 - \$7.50
Westbrook	2,394,326	123,963	5.18%	6,466	5.45%	33,464	\$3.95 - \$8.00
TOTALS	14,895,159	992,976	6.67%	27,660	6.85%	(165,657)	



Portland

Multiple new vacancies along Riverside St & Riverside Ind Pkwy contributed to a slight rise in vacancy in Portland, ending the year at 6.85%. Notable lease-ups were at 299 Presumpscot St (Porter Drywall), 58 Alder St (bowling alley) and 74 Evergreen Dr (Headlight Audio), while 217 Read St converted to self-storage.

Scarborough

Posting its third consecutive year of lower vacancy, Scarborough is down to 5.68% as compared to its recent 2006 high of 11.43%. Aiding these results were full-building lease-ups at 411 Payne Rd (AAA Northern NE), 5 Lincoln Cr (Len Libby & Portland Pie) and 65 Pleasant Hill Rd (Howard Fairfield). Asking rental rates were down for 2009, possibly contributing to these results.

South Portland

This city posted the largest increase in vacancy at 8.27% vs 2008's 1.53%. Not since 1998 has vacancy in this submarket risen above 3%. The primary factor was the loss of a large tenant at 167 Rumery Rd, coupled with multiple vacancies on Cash

St and John Roberts Rd. Net absorption was negative by 216,508 sf and asking rental rates were down significantly from the prior year. Historically enjoying high occupancy, this market currently offers an opportunity for aggressive tenants/buyers to secure favorable long-term solutions.

Westbrook

2009 marked the fifth straight year of lower vacancy in Westbrook with positive net absorption of 1.4%. The former Saunders Bros. complex continues on a steady lease-up path, with 50% remaining vacant following the lease of 18,565 SF by Velocity Express. Other notable leases include LL Bean's sublease at 25 Thomas Dr and So. Maine Sportszone's lease at 510 County Rd. Asking rental rates remained steady for the year.

2009 has set the stage for an active 2010. National forecasts for industrial output are trending upward. Locally, seasoned investors are acquiring and owner-users and tenants recognize the bottom of the market is here. Those entering it in 2010 will build wealth, improve facilities &/or reduce occupancy costs. It is a time of opportunity.

