

Mid-Year Update

2011 State of the Market OFFICE

A Trend Is Over

Since 2006 vacancy in the Greater Portland office market has grown at an average annual rate of 1.9%. That trend is over.

As of mid-year, vacancy dropped to 11.78% versus 12.65% at year-end 2010. Correspondingly, net absorption was positive by 1% with 99,849 sq. ft. of additional office space leased in the first half of the year. Throughout each sector (downtown/suburban, Class A/B) net absorption was positive for the first time since 2004.

Lease signings by Stone Coast at Two Portland Square (22,000 SF) and Savings Bank of Maine at Two Canal Plaza (16,355 SF) aided in the positive results, as did the sale of three of the four floors at 100 Waterman Drive, South Portland (two floors purchased by First Atlantic and one by the S.P. Housing Authority).



TWO CANAL PLAZA

The Impact of Shadow Space

254 COMMERCIAL STREET



Shadow space, or occupied space soon to be vacant, is of notable interest as of mid-year. The Pierce Atwood law firm will relocate this fall from One Monument Square to occupy 75,000 sq. ft. in the renovated 95,000 sq. ft. building at 254 Commercial Street. This move will create nearly 100,000 sq. ft. of available Class A downtown space (75,000 SF at OMS and new vacancy of 23,000 SF at 254 Commercial Street).

Coupled with other pending vacancies throughout the market, shadow space at this time is close to 160,000 SF. However, there are a number of larger tenants currently seeking new or

expanded space in Greater Portland, which should off-set this anticipated shadow space. Occupancy requirements for these tenants will vary between 6-months and several years, but this activity should keep vacancy near current levels.

Note: Inventory, Vacancy & Absorption chart next page

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Commercial and Investment Real Estate

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	Year-End 2010		Mid-Year 2011			Shadow Impact	
	Inventory	Vacancy	Inventory	Vacancy	Absorption	Inventory	Vacancy
Downtown Class A	1,712,887	11.36%	1,712,887	9.15%	1.88%	1,807,887	15.23%
Downtown Class B	2,869,621	17.60%	2,869,621	17.15%	0.07%	2,869,621	17.41%
Downtown Total	4,582,508	15.27%	4,582,508	14.16%	0.74%	4,677,508	16.57%
Suburban Class A	2,480,112	9.66%	2,480,112	10.08%	0.80%	2,480,112	11.35%
Suburban Class B	2,813,522	11.00%	2,813,522	9.37%	1.63%	2,813,522	9.37%
Suburban Total	5,293,634	10.37%	5,293,634	9.70%	1.24%	5,293,634	10.30%
TOTAL	9,876,142	12.65%	9,876,142	11.77%	1.01%	9,971,142	13.24%



Sales Outlook/Scene

Buyers are plentiful, but a lack of available inventory has slowed sales. Banks are actively working with borrowers that are dealing with cash flow issues, and even with auctioned/foreclosed properties there are no “bargains” to be had.

Going forward we don't foresee a quick change. Barring any significant positive news on the economic front, this deadlock appears to be with us for the foreseeable future. Landlords and bankers are in a hunkered-down mode as they ride out this recessionary wave.

The Market Report

Malone Commercial Brokers is pleased to offer this mid-year update on the 2011 State of the Market for the Greater Portland office sector published earlier this year. The 2011 State of the Market report is available to download online at: <http://www.malonecb.com/pdf/2011OfficeMarket.pdf>, or contact us and we will be happy to send you one.

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