



GREATER PORTLAND OFFICE MARKET SURVEY

2011 represented a step forward for the Greater Portland office market. Since the “peak” of the market in 2006 we have seen steady annual increases in overall vacancy by 1.9%, negative net absorption by 70,000 SF per year, and lowering average rental rates of \$.25/SF per year. That has changed. As of year-end 2011 overall vacancy increased by only .27% (to 12.92%), net absorption was positive by 89,076 SF, and average asking rental rates increased by nearly 2%. Furthermore, leasing activity has been steadily increasing by an annual average of 8% since 2007 and is now near 2006 levels. We believe the market has turned a corner.



254-258 Commercial Street

- Downtown vacancy increased by .27% to 16.5%, the highest level posted in nineteen years of surveying the market. The driver of this increase was the anticipated renovation at 254-258 Commercial Street and the subsequent move by Pierce Atwood from One Monument Square to this location. This move simultaneously added 95,000 SF to the market while vacating 75,600 SF at OMS. Coupled with other tenant moves, the net result was healthy positive absorption of nearly 40,000 SF downtown.

- Suburban results continue to trend positive with a second consecutive year of lower overall vacancy and positive net absorption. Ending 2011 vacancy decreased by .6%, now below double-digits at 9.6%, and net absorption was positive by 49,200 SF. A combination of owner-user purchases and large tenant expansions contributed to the positive results.

- The national office market vacancy rate is anticipated to end 2011 at 16.6%, even with 2010, while the Greater Boston market posted vacancy of 17.7%. Greater Portland ended the year at 12.9% and is anticipated to remain flat or even decline some in 2012 and beyond.

These positive results are directly inline with the mood on the street, where there is more optimism than has been seen in some time. Even though we are moving in the right direction, vacancy rates are still high compared to historical averages and it will continue to be a tenants/buyer market in 2012. However, barring any major economic set-backs 2012 is poised for slow but increasing growth.

- Collectively, net absorption was positive by 89,076 SF, or .9% of the market, a significant improvement above 2010’s loss of 257,867 SF and the 5-year and 10-year averages of negative 38,087 SF and positive 62,441 SF respectively. National net absorption was flat as of year-end, but is predicted to trend positive by roughly 1% each year for 2012 and 2013.

- In aggregate, local asking rental rates increased by 1.7% in 2011, equal to the same rate of average annual increase since 2002. National rent growth increased by 1.4% in 2011 and is anticipated to increase by 1.7% and 2.4% in 2012 and 2013 respectively.

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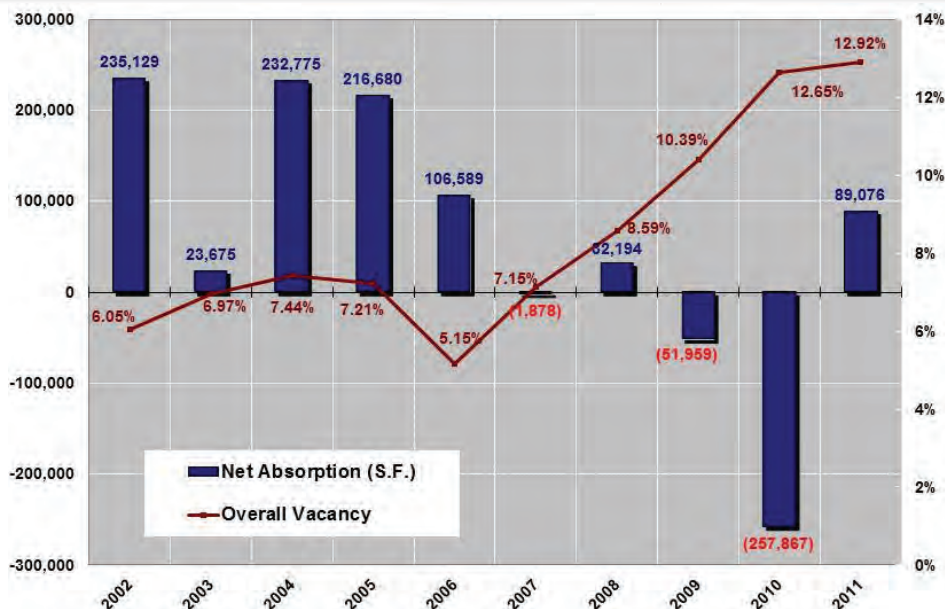
Office Market Survey

Downtown

2011 was an active year downtown with a handful of anticipated new construction and relocation projects finally coming to a close. Overall vacancy increased, as expected, but net absorption was positive and asking rental rates increased slightly over 2010. The net results were good as a whole.

The Class A sector posted the largest increase in overall vacancy, up nearly 4% to 15.2%, primarily due to the Pierce Atwood move to Commercial Street. Other losses include the move by Dead River Company to 82 Running Hill Road, vacating one-half of a floor at Two Monument Sq, and Health Dialog downsizing by two floors there as well. On a positive note, 511 Congress Street renewed/expanded multiple tenants, including AMEC for 44,124 SF, Troubh Heisler for 11,523 SF, and I-Many for 10,700 SF. Additionally, Two Canal Plaza leased two floors to Savings Bank of Maine (16,355 SF) and Two Portland Sq. leased 22,000 SF to Stone Coast. A lot happened in 2011 in this sector.

The Class B sector posted tremendous results in 2011, with overall vacancy down



Does not include information regarding Greater Portland's medical space

slightly to 17.32% and net absorption positive by 100,593 SF. The renovation of 254-258 Commercial Street added 95,000 SF to this sector, the largest in our survey at 2,965,000 SF, and the sale and subsequent lease-up of 443 Congress Street removed 23,120 SF of vacancy from the market (new tenants there include Portland Regional Chamber, Local Thunder and Planned Parenthood). Asking rental rates increased by 3.5% as well, another positive piece of news.

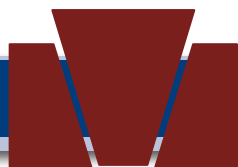
For a year or two we have talked about downtown "shadow space" and "pending downsizings" – 2011 was the year much of that flushed through. With no new construction projects planned at this time for downtown, we foresee flat to slightly decreasing vacancy in 2012, as well as positive net absorption and an increasing sense of growth or expansion by tenants in the market.

Old Port Edge by Peter Harrington

In 2011 the Old Port continued to be a draw for office users. Overall vacancy dropped slightly to 13%, compared to 16.5% for all of downtown, and we believe 2012 will be an even better year for office rentals. The character and physical beauty of the Old Port, as well as the water views from many of the buildings, continues to attract office tenants, retail shops and restaurants.

The size of Old Port buildings and spaces are also a positive, as a larger number of Greater Portland's office tenants are smaller and require appropriate sized space not as easily found in suburban markets or even Congress Street and Monument Square submarkets.

One particular street in the Old Port that continues to shine is Commercial Street. This locale has emerged as one of the most vibrant commercial areas in the entire state. The office vacancy rate on Commercial Street ended the year near 8% for buildings we track, with almost no retail space available there as well. There is also future planned development on West Commercial Street. The future of Portland's Commercial Street corridor, and the Old Port as a whole, is indeed bright.



Suburban

2011 was another strong year for the suburban office market. For a 2nd consecutive year overall vacancy dropped, now down to 9.74%, and net absorption was positive, ending the year up 49,198 SF. A handful of tenant leases and owner-user purchases contributed to these strong results.

In the Class A sector multiple large-tenant leases helped offset the availability of new space. Leases by Cole Haan at 6 Ashley Drive (38,390 SF) and SironaHealth at 500 Southborough Drive (17,832 SF), along with Dead River Company occupying their top floor at 82 Running Hill Road (26,546 SF), countered new vacancies at One Riverfront Plaza (sublease space of 23,770 SF) and 21 & 50 Donald B. Dean Drive (4,500 SF and 6,130 SF respectively). Overall vacancy was up .3% to 9.94%, but absorption was positive at year-end by 15,000 SF. Asking rental rates increased by nearly 1% as well.



443 Congress Street



100 Waterman Drive

Results in the Class B sector turned favorable in 2011, with the first drop in overall vacancy since 2005 to end the year at 9.56% vs. 11% in 2010. Contributing to the strong results were the sale of three floors at 100 Waterman Drive (1st floor to South Portland Housing Authority and 3rd and 4th floors to First Atlantic Mortgage), along with the continued lease-up of 71 US Route One (approximate 5,000 SF leases each to Cross Roads for Woman, a pediatric cardiologist, and a fitness center). Absorption was positive by nearly 35,000 SF for the year.

As predicted last year, 2012 should be another year of increased results for the suburban office market. Shadow space of roughly 24,000 SF is possible, but nothing compared to levels in years past. Parking costs continue to rise downtown, yet another factor that bodes well for suburban office space.

2012 Forecast

- Tenants will continue to expand terms for new leases or renewals, looking to take advantage of favorable rates for deals in the 5-10 year range.
- The number of leases signed will remain consistent with 2011 levels or increase slightly as the pace of growth slowly continues.
- Overall vacancy will remain level with 2011 or may decline slightly, but the downward trend will level off for a 2nd consecutive year.
- Barring any new construction, absorption will range between flat to an increase of less than 1%, but should not turn negative.
- Asking rental rates will remain flat or may decline some as landlords continue to incent tenants to lock in for longer terms.
- The optimistic mood continues.

Greater Portland Office Market - Year-End 2011

	Rentable	Available	Direct Vacancy	Sublease Space	Overall Vacancy	Absorption	Asking Rent MG
Downtown							
Class A	1,712,887	241,970	14.13%	18,327	15.20%	(60,715)	\$13.75 - \$25.00
Class B	2,964,621	488,587	16.48%	24,761	17.32%	100,593	\$11.00 - \$20.00
Subtotal	4,677,508	730,548	15.62%	43,088	16.54%	39,878	
Suburban							
Class A	2,480,112	187,916	7.58%	58,683	9.94%	14,793	\$16.45 - \$22.50
Class B	2,845,656	272,030	9.56%	-	9.56%	34,405	\$12.50 - \$19.50
Subtotal	5,325,768	459,946	8.64%	58,683	9.74%	49,198	
TOTALS	10,003,276	1,190,494	11.90%	101,771	12.92%	89,076	

Office Market Survey

The Market Report

Malone Commercial Brokers is pleased to offer the 2012 Office Market Survey. Jim Harnden and Matthew Barney have provided this annual survey of the office sector in Greater Portland for the past 19 years.

As was with other commercial real estate sectors, 2011 was indeed a challenging year. Granted, forecasting is as old as markets themselves and can be idiosyncratic. But with the benefit of 19 years of historical market data, our goal is to provide our clients and business partners with the most accurate analysis and forecasts available for the Greater Portland office market.

The Authors

Combined Jim and Matthew have over 35 years of experience in the Greater Portland real estate market. They are recognized experts in providing comprehensive market data and analysis, allowing them to effectively and professionally represent national, regional and local clients as they make informed business decisions. Their approach to commercial brokerage is unique, and they are adept at analyzing the requirements, distilling the results, and providing strategic recommendations that are valued by their clients.

The Company

Established in 1960 as the Malone Agency, the company adopted the Malone Commercial Brokers name in 1984 to better reflect the firm's focus on commercial real estate. Malone Commercial Brokers has been helping clients build wealth, improve efficiency, save money and realize goals and dreams through the vehicle of commercial real estate. Whether you are an investor, tenant, would-be owner/user or landlord, there are strategies to employ now to meet your objectives. Please feel free to call with any questions regarding any of the information presented in the 2012 Office Market Survey.

Greater Portland Markets

Falmouth, 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 real estate taxes, operating expenses and HVAC

NNN - Triple Net Rent

tenant responsible for real estate taxes, operating expenses and HVAC

Absorption

net change year to year of total occupied space

Data

all data collected as of 12/1/11



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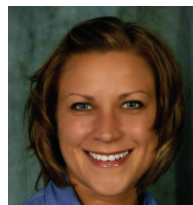
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