CBRE | The Boulos Company

mainemarketoutlook.com


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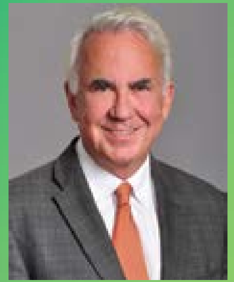

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# 2016

# GREATER PORTLAND
# MARKET OUTLOOK

CBRE | The Boulos Company

## A Message from our Managing Director

CBRE | The Boulos Company is pleased to present the 2016 Market Outlook for Greater Portland's commercial real estate market.

Our market continued to experience robust expansion on many fronts. Overall vacancy rates in the office sector are once again down, and we expect construction of new product in the near future to accommodate expanding businesses in the market. Unemployment in the Portland region is currently estimated at 3.4%, and the multi-family vacancy rate is near zero. There is a continued push to build market rate and affordable multi-family rental and condominium units in Portland. Retail and industrial vacancy rates in Greater Portland are near 5% and the tight market has resulted in increasing lease rates.

While the climate is incredibly strong on all fronts for Greater Portland, more rural parts of the state are experiencing weak demand and very little growth. There are pockets of activity, however, in areas like Bangor, Augusta, Lewiston/Auburn and Saco/Biddeford. A slate of proposed development projects for 2016 are poised to help meet demand for housing, office, retail and industrial users.

Looking ahead to 2016, we will continue to see increased demand from food-related producers, breweries and distillers in the Greater Portland area. There continues to be a lack of quality class A office space in downtown Portland. This will lead to new construction projects in the near future for technology-related and financial service growth companies. Demand for development sites will continue to be strong on the peninsula for hospitality, residential and mixed-use (office/retail) product. This demand for additional development, particularly on Portland's peninsula, will bring added pricing pressure on available sites and parking. Occupiers who do not need to be on the peninsula and are price sensitive will seek alternatives in areas close to Portland or in the immediate peripheries, but even large blocks of suburban space are filling quickly. The only question for 2016 is "where will the next major office building be built?"

Yours truly,

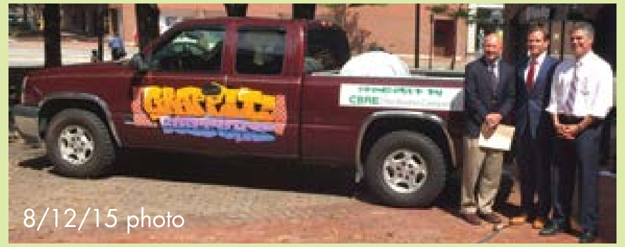
Drew Sigfridson, SIOR
Managing Director

## ABOUT US

CBRE | The Boulos Company is Northern New England's largest commercial real estate services firm. The Boulos Company was founded by Joseph Boulos in 1975 and became the Maine affiliate of CBRE, the world's largest commercial real estate firm, in 2001.

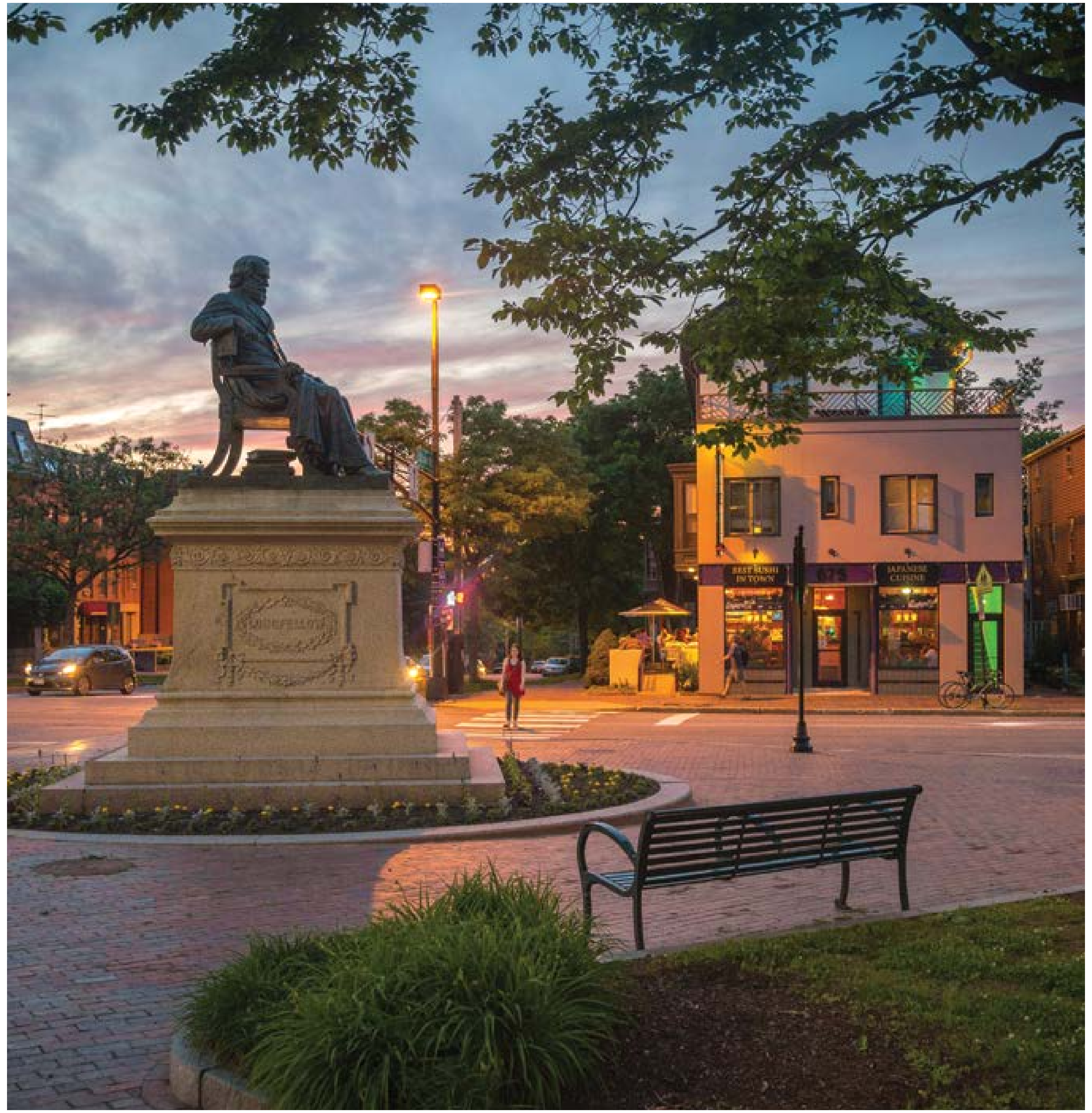
The company serves real estate owners, investors and occupiers by offering strategic advice and execution for property leasing and sales, along with property and facilities management and project management services. In 2015, CBRE | The Boulos Company represented clients in over $345 million in transaction volume.

Today, the company, with offices in Portland, Maine and Portsmouth, NH, consists of 20 licensed brokerage professionals who assist clients in all aspects of commercial real estate transactions across the entire state of Maine and seacoast of New Hampshire. Our client list includes many of the region's largest employers, developers and commercial real estate investors.


8/12/15 photo

We celebrated our 40th year of business in 2015, and to mark the occasion we donated the funds for a truck and staffing for the Graffiti Busters program administered by Learning Works. Because our business is real estate, we understand how much building owners invest in their properties, and we want to support their efforts to protect their investment. The removal of graffiti is not only a benefit to the owners of the properties affected, but the entire community at large.

At left: Portland Mayor Michael Brennan, Drew Sigfridson, Ethan Strimling, Director of Learning Works



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Detailed information available on
**mainemarketoutlook.com**

# Office Market Overview *by Jessica Estes, Partner*

## SNAPSHOT

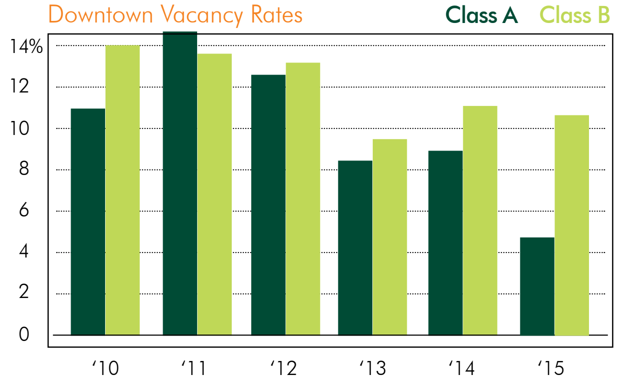
The story for 2015 in Greater Portland's office market was one of continued improvement. As of December 1, 2015, vacancy was 6.52% direct, and 0.73% sublease, for a total of 7.23% across the nearly 12 million square feet of office inventory in seven towns and cities (Portland, Westbrook, South Portland, Scarborough, Falmouth, Cumberland and Yarmouth). We ended 2014 with 911,712 sf vacant, and ended 2015 with 772,546 sf vacant, for positive absorption over 12 months of nearly 140,000 sf.

## DOWNTOWN

Portland's CBD showed strong improvement as expected. Downtown Class A vacancy had a sharp decline to 4.52% from last year's 8.8%. Much of this trend can be accounted for in the leasing of 161 Marginal Way to Portland Gastroenterology Center and Maine Eye Center, which has prompted us to reclassify the building to the Medical Class A category in the survey. That 50,400 sf increase in occupancy notwithstanding, the submarket had positive absorption of over 48,000 sf. One and Two Monument Square accounted for the majority of the absorption, the latter of which is now fully-leased.

More modest improvement was seen in the downtown Class B market. 66 Pearl Street, 178 Middle Street, One Post Office Square and 50 Portland Pier were the beneficiaries of several new tenants.

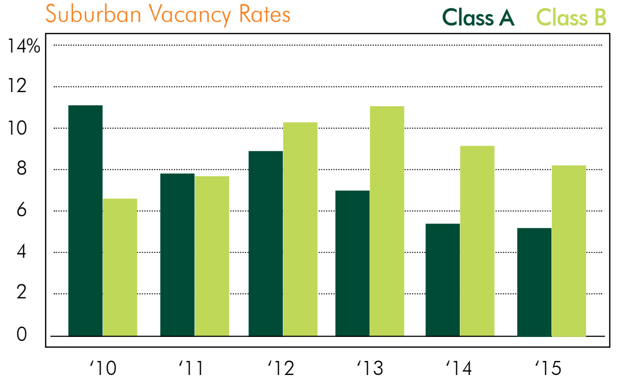
123 Darling Avenue, South Portland




## SUBURBAN

For the suburban market, the results were mixed, but overall, a positive trend emerged. In its entirety, the segment had positive absorption of about 30,000 sf, and a vacancy rate that decreased from 6.82% to 6.38%. A couple of significant tenant moves are responsible for the majority of the change. 123 Darling Avenue in South Portland was purchased by an investor and leased in its entirety. 6 Ashley Drive, which had a 38,390 sf vacancy, was also filled by a single user. The biggest drag on the market was One Riverfront Plaza in Westbrook, which lost its single tenant to 300 Southborough Drive in South Portland. This 134,000 sf vacancy accounts for over 1/3 of the entire vacancy across all submarkets. At the time of this writing, there is a user with serious interest in the building and, if filled, the effective change in vacancy rate for the Class A suburban segment will be 4%.

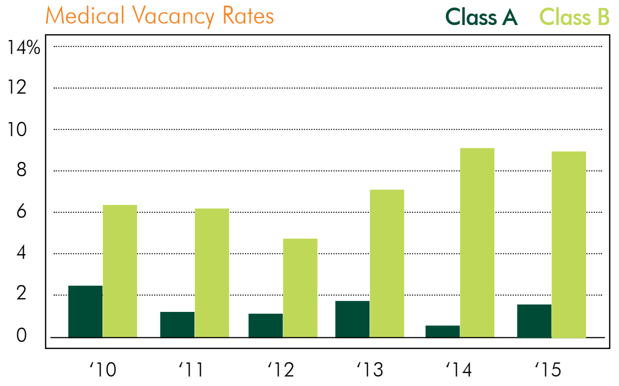
178 Middle Street, Portland




## MEDICAL

As we've noted in the past, Class A medical space has had an extremely low vacancy rate, hovering around 1%. Our 2015 Market Outlook posited that office space may need to be constructed to meet new demand. This year two medical users signed leases at 161 Marginal Way, filling the 50,400 sf Class A downtown building, converting the space to medical office. The class A medical submarket continues to be remarkably strong, with only one vacancy. Any medical user looking to expand or move into the market will either have to convert existing office space to medical or construct new space. Class B medical space has a vacancy rate of 8.96%, with the largest space being a stubborn vacancy at 117 Auburn Street in Portland. 440 Western Avenue, which was purchased by an investor last year, remains untenanted and those two buildings account for over 60% of the available space in the segment. These numbers are not overly concerning because the class B medical segment is a small portion of our overall market with 310,000 sf of inventory.

161 Marginal Way, Portland




## SUMMARY

Greater Portland's office market continues its healthy trend into 2016. In each of the three major segments, we see increased demand, decreasing supply, and anticipate new development; some of which is already in the planning stages. The current environment can be described as a Landlord's Market, and occupiers are advised to plan moves and expansions well in advance of their anticipated need for space. Absent a major shift in the economy, new product will need to be built over the coming 12-24 months to accommodate growing users needs.

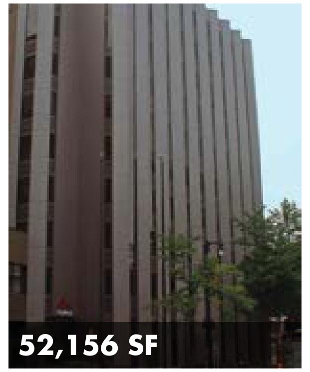
## Vacancy Rate Summary

| Location | Classification | Total Rentable '15 | Available SF '14 | Vacancy Rate '14 | Available SF '15 | Vacancy Rate '15 | Sublease '15 |
|---|---|---|---|---|---|---|---|
| Downtown Portland | Class A | 1,975,216 | 178,348 | 8.80% | 89,329 | 4.52% | 33,583 |
| | Class B | 2,348,694 | 270,624 | 11.06% | 241,552 | 10.28% | 5,182 |
| | **Total Downtown** | **4,323,910** | **448,972** | **10.04%** | **330,881** | **7.65%** | **38,765** |
| Suburban Portland | Class A | 950,813 | - | 0.00% | - | 0.00% | - |
| | Class B | 927,236 | 69,601 | 7.51% | 73,666 | 7.94% | - |
| | **Total Suburban Portland** | **1,878,049** | **69,601** | **3.71%** | **73,666** | **3.92%** | - |
| Falmouth, Cumberland, Yarmouth | Class A | 649,022 | 10,240 | 1.58% | 13,048 | 2.01% | - |
| | Class B | 261,185 | 30,798 | 11.79% | 27,887 | 10.68% | - |
| | **Total Falmouth, Cumberland, Yarmouth** | **910,207** | **41,038** | **4.51%** | **40,935** | **4.50%** | - |
| Westbrook | Class A | 330,544 | - | 0.00% | 134,340 | 40.64% | - |
| | Class B | 243,975 | 52,126 | 18.93% | 27,722 | 11.36% | - |
| | **Total Westbrook** | **574,519** | **52,126** | **8.74%** | **162,062** | **28.21%** | - |
| Maine Mall Area | Class A | 1,698,824 | 186,866 | 10.99% | 45,991 | 2.71% | 47,209 |
| | Class B | 405,394 | 46,415 | 11.49% | 39,934 | 9.85% | - |
| | **Total Maine Mall Area** | **2,104,218** | **233,281** | **11.08%** | **85,925** | **4.08%** | **47,209** |
| Scarborough, South Portland | Class A | 224,521 | 11,830 | 5.81% | 8,549 | 3.81% | - |
| | Class B | 575,114 | 22,438 | 3.90% | 28,623 | 4.98% | - |
| | **Total Scarborough, South Portland** | **799,635** | **34,268** | **4.40%** | **37,172** | **4.65%** | - |
| All Suburban Markets | Class A Suburban Total | 3,853,724 | 208,936 | 5.40% | 201,928 | 5.24% | 47,209 |
| | Class B Suburban Total | 2,412,904 | 221,378 | 9.06% | 197,832 | 8.20% | - |
| | **Total Suburban** | **6,266,628** | **430,314** | **6.82%** | **399,760** | **6.38%** | **47,209** |
| Medical | Class A | 943,891 | 4,295 | 0.51% | 14,099 | 1.49% | - |
| | Class B | 310,360 | 28,131 | 9.24% | 27,806 | 8.96% | - |
| | **Total Medical** | **1,254,251** | **32,426** | **2.81%** | **41,905** | **3.34%** | - |
| | Class A Downtown, Suburban & Medical | 6,772,831 | 391,579 | 5.81% | 305,356 | 4.51% | 80,792 |
| | Class B Downtown, Suburban & Medical | 5,071,958 | 520,133 | 10.01% | 467,190 | 9.21% | 5,182 |
| | **Total** | **11,844,789** | **911,712** | **7.64%** | **772,546** | **6.52%** | **85,974** |
| | **Total Office Space and Vacancy - Direct Lease** | **11,844,789** | **911,712** | **7.64%** | **772,546** | **6.52%** | |
| | **SUBLEASE SPACE** | | **182,816** | **1.53%** | **85,974** | **0.73%** | |
| | **TOTALS** | | **1,094,528** | **9.17%** | **858,520** | **7.25%** | |

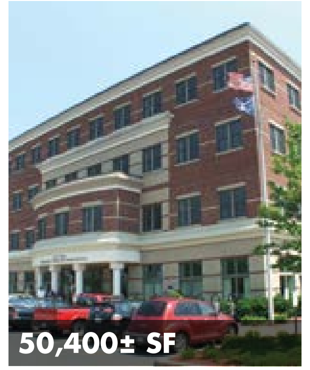
## Significant Vacancy Shifts *by Tyler Hobbs, Associate Broker*

Below are the buildings in Greater Portland with the largest increase in leased space, along with those with the largest decrease in leased space in 2015 as compared to the previous year. The shifts are shown below.

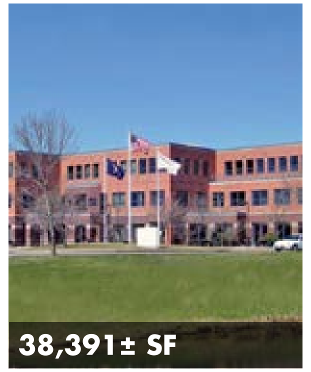
123 Darling Avenue, South Portland
WEX leased the entire building.



1 Monument Square, Portland
New tenants include BlueTarp Financial, Inc. and Bank of America.

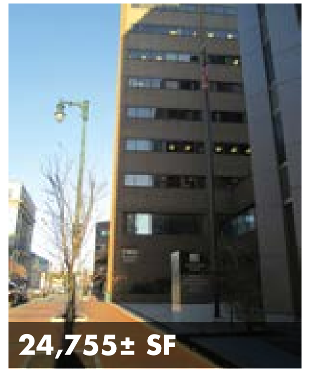


161 Marginal Way, Portland
Maine Eye Center and Portland Gastroenterology leased the building.



6 Ashley Drive, Scarborough
Sun Life Financial leased the former Cole Haan space.

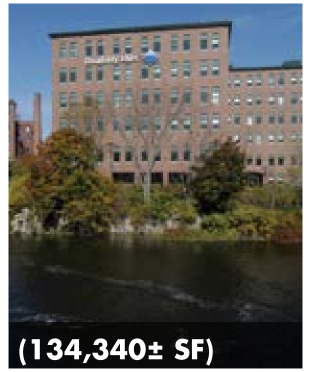
82 Running Hill Road, South Portland
Dead River now occupies the balance of the building.



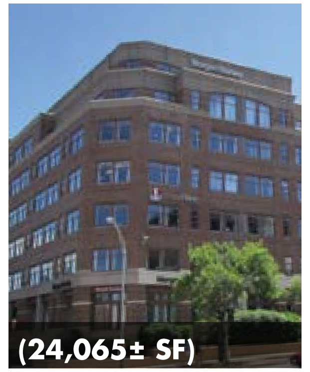
2 Monument Square, Portland
Robinson Smith Wealth Advisors, LLC, ASG Risk Management and others leased space here.

**POSITIVE ABSORPTION**

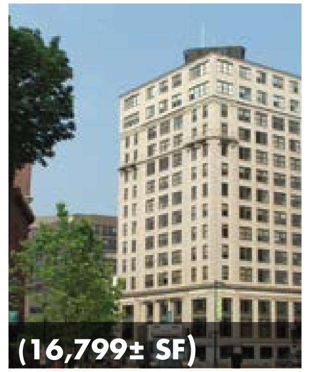
**NEGATIVE ABSORPTION**



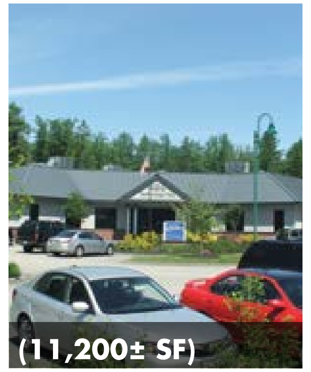
1 Riverfront Plaza, Westbrook
Disability RMS vacated this property and relocated to 300 Southborough Drive.



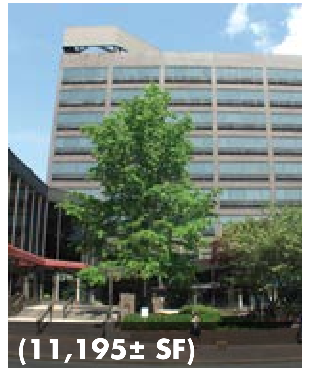
100 Middle Street West, Portland
Bank of America relocated to One Monument Square.



477 Congress Street, Portland
WMTW relocated to new headquarters in Westbrook.



400 Technology Way, Scarborough
The building is vacant and available for sale.



511 Congress Street, Portland
Pierce Promotions and Hopkinson & Abondanzza both vacated.

190 Riverside Street, Portland
Eliason Dental Lab vacated their space at this location.

## Capital Markets *by Drew Sigfridson, SIOR, Managing Director*

Investment capital continues to flow into commercial real estate in Maine with substantial demand for high-quality multi-family and office assets in Greater Portland as well as retail shopping centers and net leased industrial properties throughout the state. Once again, Greater Portland experienced the most activity in the state, attracting local and national investors. The low-interest rate environment, coupled by increasingly low yields in core markets, led to increased demand and slightly lower cap rates in 2015 vs 2014. Other secondary and tertiary markets throughout the country experienced a similar trend, with more investors seeking higher yields and demonstrating a willingness to invest in non-core markets. Three major factors have impacted the trading volume and price of investment real estate.

### ECONOMY

While the economy continues to be strong, we have seen limited new construction in most markets. Vacancy rates have diminished substantially and Landlords are demanding higher rents across the board. After a major shift from the years of high vacancies and low rents, some property owners have determined that now may be a peak in the market and a good time to sell. This factor has certainly influenced some of our clients to sell their properties at historically high valuations. We expect this trend to continue as there has not been sufficient new product coming to the market, so existing building rents will continue to appreciate. There is some "room to run" on rental rate appreciation because we still have a gap between market rates and new construction lease rates. Developments are starting to percolate in the pipeline and we expect new construction projects across all sectors in 2016 and 2017.

### FINANCING

The real estate industry has always been careful to watch interest rates and the benchmark federal-funds rate has been near zero since December 2008. For the better part of the past two years, a rate hike has been widely anticipated. On December 16th, 2015, the Fed raised its target rate by 25 basis points, the first such increase since 2006. The market had been expecting this gradual increase in rates and most investors expect pricing to come off record highs. Cap rates typically follow interest rates. The magnitude of these policy changes in relation to capital markets remains to be seen, but we do not expect a major impact in the demand for investment product. From a historical perspective, even with the increase, rates are still extremely favorable. Financing fundamentals remain strong with banks, life companies and CMBS lenders all taking active roles in the market. Local banks remain eager to lend. However, appraisal standards remain stiff in response to the turmoil of the Great Recession, and buyers are finding themselves increasingly required to place additional equity in deals to secure financing.

### INVENTORY

As evidenced by a trend in "call for offers" listings, unlisted properties changing hands, and properties trading above asking prices; demand continues to be stronger than available supply. Due to ever-increasing demand for property and lack of available product, some investors are favoring value-add investments to avoid paying a premium for stabilized assets.

This past year, CBRE | The Boulos Company assisted our clients in arranging $262 million in sale transaction volume. 56 of our101 transactions (56%), totaling $225 million, were investment real estate product. Cap rates ranged significantly, but were lowest for multi-family and CBD Class A office assets, following the national trend. While we hesitate to reference specific cap rates because there are so many factors affecting value, suffice it to say that we are at record valuations, buoyed by the ability to obtain long-term fixed debt at historically low rates.

As predicted in our Market Outlook article on Capital Markets last year, the most challenging factor for 2015 was finding enough investment product to satisfy demand. The rising interest rate environment will be the biggest factor to impact this market in 2016. Slightly rising interest rates may benefit investors as would-be sellers place properties on the market before the increasing costs of debt result in a significant decrease of property values.

**CBRE | THE BOULOS COMPANY'S TOP 25 2015 INVESTMENT SALES**

| No. | Adddress | City | Closing Date | Sale Price | CAP Rate* | Type |
|---|---|---|---|---|---|---|
| 1 | 1-2 Portland Square | Portland | 3/26/15 | $66,100,000 | 8.05 | Office |
| 2 | Casco Bay Portfolio | Scarborough, Portland | 12/2/15 | $50,250,000 | 6.50 | Multi Family |
| 3 | 100 Middle Street | Portland | 3/19/15 | $35,300,000 | 8.22 | Office |
| 4 | East End Portfolio (8 bldgs) | Portland | 9/24/15 | $6,965,000 | 7.00 | Multi Family |
| 5 | 57 Baywood Lane | Yarmouth | 10/14/15 | $5,400,000 | 5.70 | Multi Family |
| 6 | 1 Monument Way | Portland | 9/30/15 | $5,240,000 | 7.92 | Office/Retail |
| 7 | 129-137 Chadwick Street | Portland | 12/18/14 | $5,000,000 | 6.18 | Multi Family |
| 8 | 55 Hutcherson Drive | Gorham | 7/23/15 | $4,745,000 | 7.58 | Industrial |
| 9 | Woodfords Portfolio (4 bldgs) | Portland | 10/14/15 | $3,200,000 | 7.50 | Multi Family |
| 10 | Deering St Portfolio (3 bldgs) | Portland | 6/25/15 | $3,060,000 | 6.60 | Multi Family |
| 11 | 9 Industry Ave | Auburn | 3/31/15 | $2,785,000 | 7.24 | Medical Office |
| 12 | 50-72 Main Street | Kennebunk | 5/15/15 | $2,580,000 | 10.96 | Office / Retail |
| 13 | 720 Central Street | Millinocket | 1/12/15 | $1,875,000 | 8.02 | Retail |
| 14 | 478 U.S. Route 1 | Yarmouth | 1/22/15 | $1,850,000 | 8.60 | Retail |
| 15 | 110 Main Street | Saco | 11/23/15 | $1,720,000 | 12.00 | Office |
| 16 | 88-90 Exchange Street | Portland | 12/4/15 | $1,675,000 | 5.50 | Retail |
| 17 | 20 Thomas Drive | Westbrook | 6/24/15 | $1,528,833 | 7.70 | Industrial |
| 18 | 164 Civic Center Drive | Augusta | 3/31/15 | $1,520,000 | 7.30 | Medical Office |
| 19 | 379 Wilton Road | Farmington | 7/15/15 | $1,475,000 | 6.47 | Retail |
| 20 | 127 Topsham Fair Mall Road | Topsham | 12/29/14 | $1,400,000 | 9.70 | Retail |
| 21 | 17 Timber Ridge Drive | Sanford | 2/25/15 | $1,449,552 | 8.24 | Multi Family |
| 22 | 2338 Congress Street | Portland | 5/25/15 | $1,400,000 | 4.00 | Office |
| 23 | 457 Roosevelt Trail | Naples | 6/16/15 | $1,320,000 | 6.80 | Retail |
| 24 | 500 Forest Avenue | Portland | 11/9/15 | $1,275,000 | 9.10 | Office/Retail |
| 25 | 68 Pine Street | Portland | 6/24/15 | $1,250,000 | 6.00 | Multi Family |

*Cap rates may reflect estimates based on in-place income at the time of sale, without factoring future increases or pending changes to the rent roll.

## Multi-Family Market *by Joe Porta, Partner*

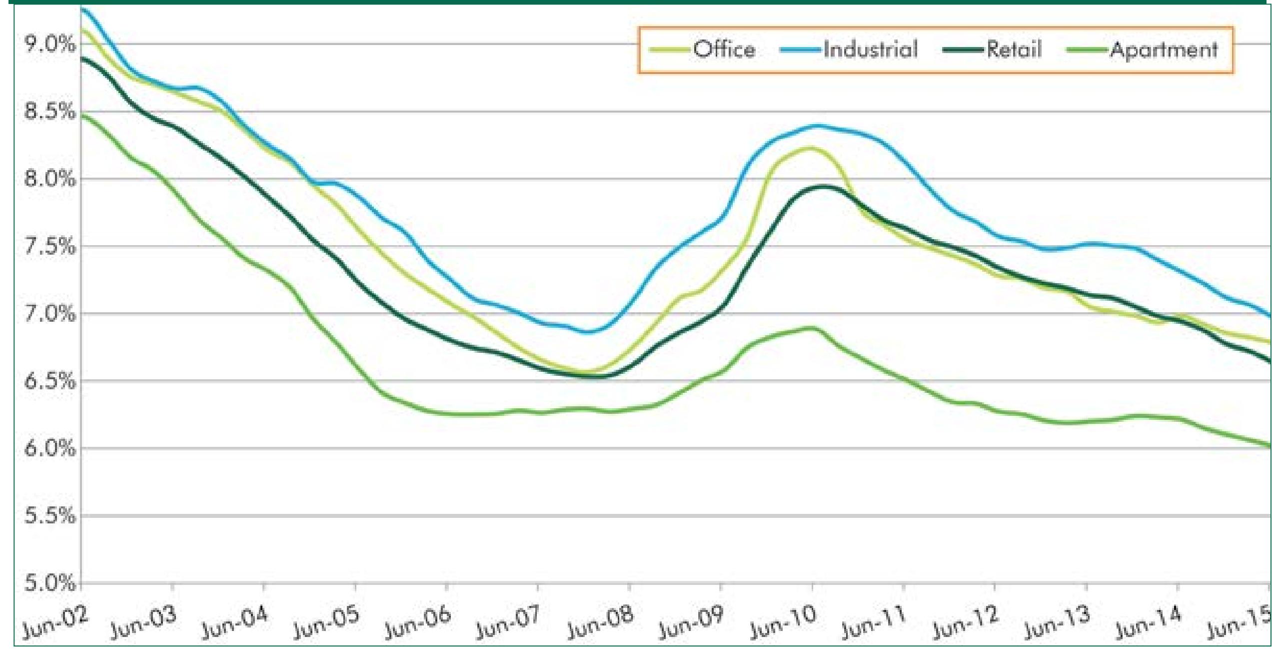
A year ago we saw robust demand to own multi-family assets in Greater Portland, which is considered a tertiary market in the national landscape. In an investment climate of low interest rates where yield/return is increasingly coveted, the Multi-family investment segment continues to be the gold standard of commercial real estate investment. These assets are comprised of a stable yet diversified revenue base (around population centers), and less expensive debt when compared to other asset sectors of the CRE marketplace. 2015 brought continued low vacancy despite considerable rises in apartment rents, which when paired with low interest financing, has resulted in a further compression of capitalization rates in the multi-family sector.

In this environment we find ourselves asking; when will values start to trump return on equity? The answer to that question is a function of what position in the real estate cycle we presume to be.

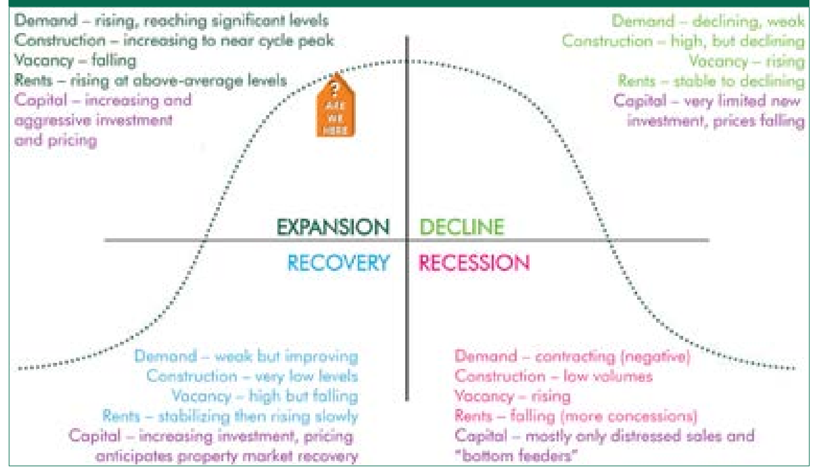
In my view, if the "Expansion" curve were a nine inning game of baseball, we are likely nearing the 7th inning. We don't anticipate an immediate or drastic spike in interest rates, and we have not seen the slowing of foreign capital flooding into Primary markets. The increased demand of aggregate institutional investment capital looking for return in CRE is pushing many investors to secondary and tertiary markets like ours. Therefore even with borrowing costs creeping up, a lack of supply for quality multi-family assets should keep the pricing of core assets at peak levels in 2016. When return on equity starts to entice acquisitions above replacement value, that is when we would start to worry that product being sold dependent on "market" revenue is susceptible to be out positioned and out priced by new construction/supply. We have not seen evidence of this yet in our market, however we did note a few transactions nearing replacement in 2015, and we are starting to hear whispers of new projects in the pipeline.

In 2015 we experienced the continued compression of cap rates in Primary markets and premium pricing for Core Assets. When underwriting is based on internal rates of return weighting so heavily on expected appreciation, it pushes more regional buyers into the Portland marketplace in search of yield (cash on cash returns). As evidenced below, we've seen more capital moving into tertiary markets with 3 straight quarters of considerable increases in sales volume.

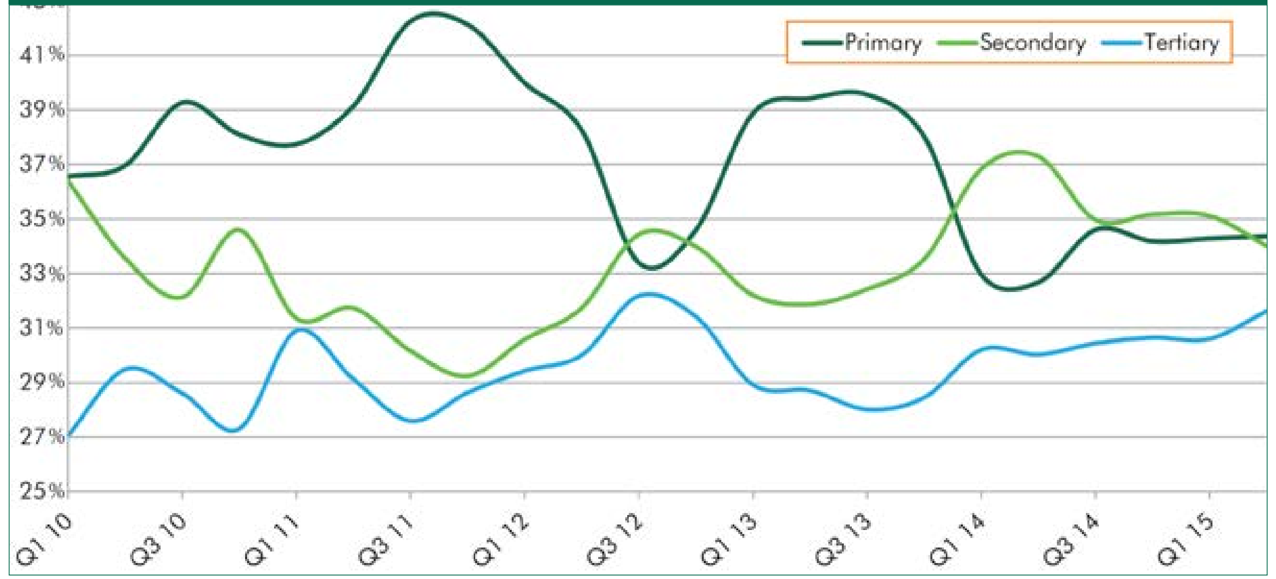
**CAP RATES BY PROPERTY TYPE**




**STATE OF REAL ESTATE CYCLE**




**SHARE OF TOTAL SALES VOLUME (4Q TRAILING AVG.)**




## OUR PREDICTIONS FOR 2016

Demand for Multi-Family investment products to remain strong across the board, and more regional investors to compete for return in Greater Portland.

Interest rates to rise gradually but no dramatic change to pricing. Cap rates to remain low, but not go any lower. Pricing at its peak.

Rising rents to slow as new supply is added.

A continuation from 2015 where we saw the trend continue of new regional and national investment players entering the Portland marketplace for the first time.

## LAST YEAR WE PREDICTED

✔ Continued strength in the sector for 2015.

✔ Improvements in unemployment and overall economic growth would continue to accelerate rental demand.

✔ Continued low cap rates and rising rents, as the trend of a continued preference/willingness to rent over owning continues.

✔ Low levels of new supply and robust demographic trends creating strong rent growth in Greater Portland.

## Bayside Developments *by Jessica Estes, Partner*

Portland's Bayside Area has been poised for major redevelopment for more than 15 years. Bayside, which hosts a diverse population and mix of properties, serves as a gateway to Portland from I-295 and abuts the back cove, downtown and Parkside neighborhoods. Its unique location, history and the diversity therein has created a situation where several groups and individuals from around the city have a vested interest, and voice, in any potential redevelopment.

In 2000, city leaders announced "A new vision for Bayside", a comprehensive plan for reuse of, among other things, a 7-acre parcel in the center of the neighborhood which was at the time being used as a scrap metal yard. While many buildings have been constructed and several retailers have moved into the neighborhood since, area residents have been anxiously awaiting the more significant development on the 7-acre parcel take shape, since dubbed the "Midtown project."

After several years of well-publicized planning, negotiations and renegotiations, it seems the Midtown project will finally get underway in 2016. Along with Midtown, there are several other projects either in the planning stages or under construction which we wanted to highlight. We are encouraged to learn of the progress with these sites and look forward to enjoying Bayside's long-awaited renaissance.

**1 20 Marginal Way** Bangor Savings Bank signed a long-term ground lease on this former car wash site and is constructing a $2 million 7,200 sf building to house offices and a branch. The property will offer an electric vehicle charging station.

20 Marginal Way

**2 45 Marginal Way** A new urban shopping center dubbed Century Plaza is under construction. This 13,226 +/- sf, two-building center will be opening in Spring 2016, with tenants such as Chipotle and T-Mobile already committed and several other units under contract.

**3 270 Lancaster Street** This building is under contract to a buyer who is planning a collaborative commercial kitchen serving new and existing businesses. This concept is the first of its kind for Portland. Visit "Forqfoodlab.com" for more information.

117 Preble Street

**4 117 Preble Street** The historic Schlotterbeck and Foss building is under contract to a developer who is planning to redevelop the property into a 55-unit apartment building.

45 Marginal Way

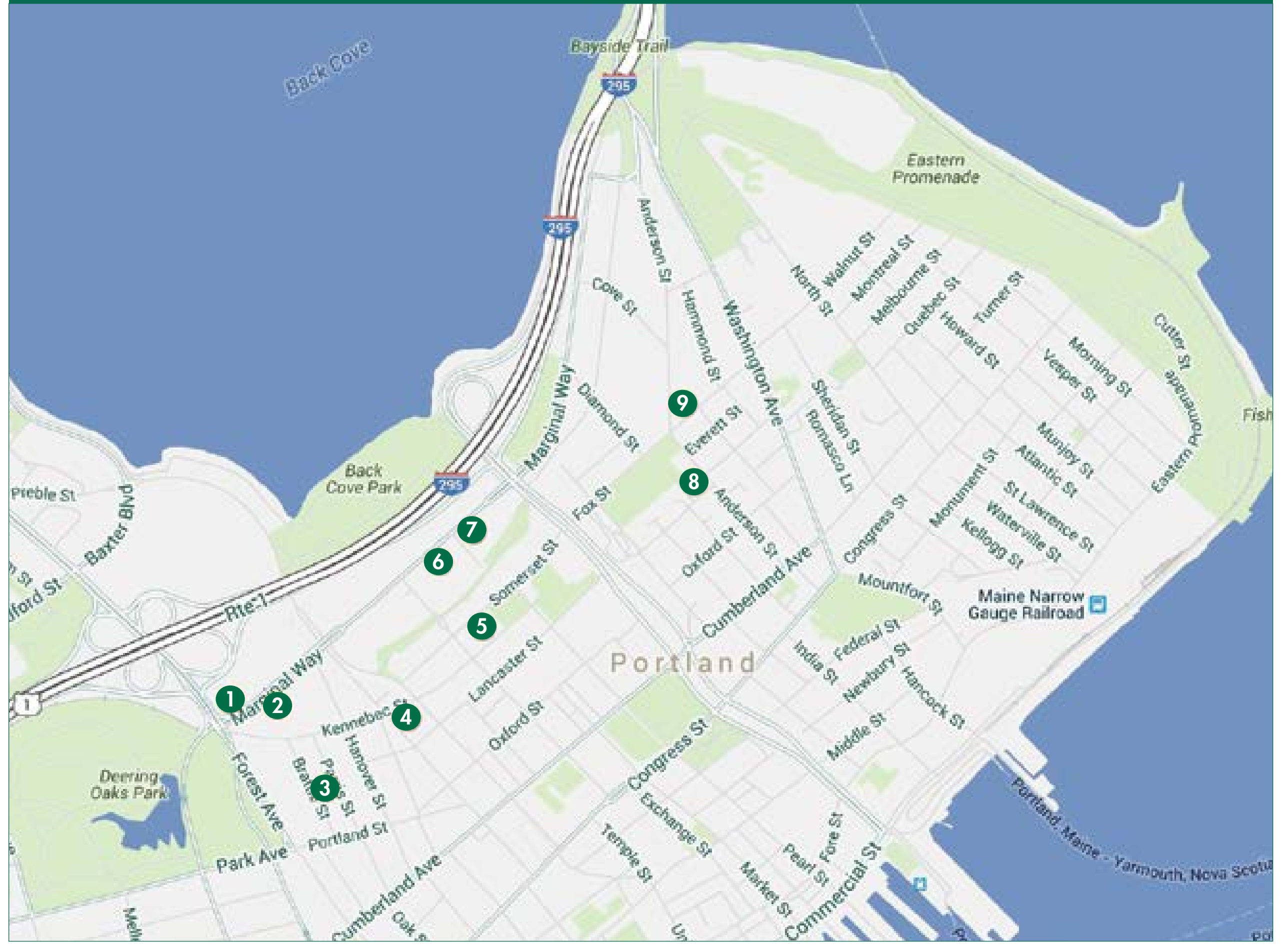
**5 Midtown** After years of negotiations with the City and various special interest groups, this long-awaited project appears to be "back on track", with groundbreaking expected in early 2016. Federated Cos. is moving forward with plans for a parking garage, 445 housing units and almost 90,000 sf of retail space.

**6 161 Marginal Way** The four-story former DHHS building was left vacant after the agency's move to the Jetport area in early 2015. This will become a medical building as Portland Gastroenterology and Maine Eye Center have signed leases for occupancy in mid 2016.

**7 191 Marginal Way** The owner of this 25,000± building, currently home to NAPA Auto Parts and AAA Car Care center, is exploring redevelopment options.

89 Anderson Street

**BAYSIDE AREA MAP**




**8 89 Anderson Street** Redfern Properties purchased this parcel in summer 2015 and is under construction on a four-story, residential apartment building with ground-floor restaurant/retail space.

**9 122 Anderson Street** The Bayside East Business Center, a new 25,200± sf building under construction will offer small flex units for lease. This property fills a niche that is underserved in the local leasing market for small industrial units with office space on or near the peninsula.

## Millennials Influence on Commercial Real Estate: Trends, Impacts and Strategies

*by Vince Ciampi, Associate Broker, Millennial*

*TRENDS: LOCATION , TECH AND DEBT*

### LOCATION

The increasing desire to live, work and play in close proximity is a common trend among the increasing number of Millennials, also known as Generation Y (Someone born between approximately 1980 and 2004). Urban mixed-use environments are the most desired location. Because Millennials tend to be more conscious of the environment, they like the idea of using public transportation and walking or biking to work. Having an efficient commute also plays a large role in increasing the work/life balance that so many Millennials value. Millennials generally want to live in vibrant urban environments that constantly change, provide a modern atmosphere, and have everything they need within walking distance of work and home.

MILLENNIALS GENERALLY WANT TO LIVE IN VIBRANT URBAN ENVIRONMENTS THAT CONSTANTLY CHANGE, PROVIDE A MODERN ATMOSPHERE, AND HAVE EVERYTHING THEY NEED WITHIN WALKING DISTANCE OF WORK AND HOME.

Millennials are doing their shopping online or in Urban mixed used developments rather than suburban big box retail centers. As a result, retail developers are increasingly more focused on downtown urban locations. One significant example is the Boston Seaport district with mixed use projects attracting large retailers in the area. A local example in Portland is the redevelopment of the old Century Tire site on Marginal Way, with retailers such as T-Mobile and Chipotle taking advantage of this trend. In addition, the development at Thompson's Point is taking shape, with a distillery, winery and brewery having signed leases at the property where office, hospitality and residential units will be constructed, all in close proximity to a major public transportation hub.

West End Place, a newly constructed 39-unit apartment buildilng in the West End of Portland that is appealing to the Millennials desired lifestyle.

MILLENNIALS WOULD PREFER TO SHOP FOR THEIR HOUSE OR OFFICE SPACE ONLINE AND BROWSE THROUGH PHOTOS OR WATCH VIRTUAL TOURS.

### TECH

New apps, devices and technologies continue to be at the forefront of the business world. Millennials rely on technology in their daily routine more than any other generation before them. Millennials prefer to shop for their house or office space online and browse through photos or watch virtual tours. This makes searching for real estate extremely efficient and constantly at the consumer's fingertips. Millennials are not only using technology more in searches, they are also demanding more technology be implemented within the real estate itself.

Amenities like charging stations and free wifi are now essentials rather than bonus features in apartments, restaurants and offices alike. Building owners in all sectors will need to adapt in order to embrace the generation encompassing the majority of the US workforce as of 2015. For example, many apartment landlords install USB ports in units and offer universal wifi, or wifi cafés in their complexes. USB ports are also now available in many restaurants and bars. Office users may consider open concept offices, which means less paper and fewer wires. Millennials appreciate working in wireless open settings rather than in a bullpen environment full of cubes.

### DEBT

One thing technology cannot help Millennials with is the rise in student loan debt. It does not appear to be a coincidence that with the rise of student loan debt there is a delay in home ownership. The home ownership rate for Millennials is more than 30% less than the rest of the population. As an increasing number of Millennials join the workforce, the rental market continues to grow. More renters in the apartment market causes faster absorption. Fast absorption causes an increase in demand, and enables apartment owners to increase their rents. Rents increasing faster than operating expenses has an immediate effect on the owner's Net Operating Income, and this spurs new construction.

THE HOME OWNERSHIP RATE FOR MILLENNIALS IS MORE THAN 30% LESS THAN THE REST OF THE POPULATION.

Multi-family owners are seeing the positive effects of more renters in the market and their building valuations rising. The increase in renters is resulting in a decrease in vacancy, making multi-family apartment buildings a lower risk and more desirable investment in this market.

Real estate trends are beginning to have a positive correlation with the needs and wants of the Millennial generation. The impact Millennials have on the industry is substantial and growing. Based on the growing percentage of Millennials in the workforce, it appears that the trends will take on a more permanent role in the business models of our peers.

Maine College of Art

## Good Health is Good Business *by Gretchen Boulos, NCIDQ*

With the increasing cost of healthcare coverage to both individuals and employers, good health is on everyone's mind. Americans are living more sedentary and stressful lives than ever before. With the high stress lifestyle shift, healthcare claims are rising annually and health issues like diabetes, high blood pressure, heart disease and obesity are on the rise. Companies are noticing this health trend partially because it's starting to affect the bottom-line for businesses. The influx of people taking sick days, medical leave and filing healthcare claims has forced many companies to step up and provide solutions to combat this trend and its financial impact. This movement is commonly known as Wellness in the Workplace. Let's take a look the initiatives being implemented in some of today's workplaces which aim to reduce stress, promote physical activity and increase employee happiness, all while aiming to save companies big bucks.

### INCENTIVES

In a perfect world we would bound out of bed at 5am eager to hit the gym. In reality, some of us need a bit more motivation. Office incentives are gaining in popularity to help get employees moving. Such perks include gym membership rebates, pedometer competitions among work teams and cash bonuses for an annual doctor's checkup. Other companies forgo the incentives but have designed their office layouts to force physical movement by placing items like printers, trash and recycling in central locations so that you must "get up and move" throughout the day.


### WORK SCHEDULE FLEXIBILITY

With many employees working more than 40 hours per week, providing a flexible work schedule has become a tool many companies use to improve physical and mental health. Not a morning person? Maybe a 10 am start time is right for you. Need to pick up the kids after school? Head in at 7 am for early release and maximized family time. Transitioning back into the workforce after maternity leave? Your employer may consider some work from home days for you. Flexible scheduling is easier with today's technology and catering to individual needs can improve productivity and overall wellness.

### HEALTH EDUCATION AND SUPPORT

Many workplaces are now sending out weekly wellness emails suggesting everything from healthy snack options to weekend 5K race information. Other offices have doctors visit the office so employees can have their checkup right at work. The soda and candy in vending machines are being replaced with fresh food. Office space is being redesigned with natural light, better air quality and living plants. It is no secret that preventative care is one of the most important steps to overall physical and mental health and companies are making sure their employees are working in healthy environments.

### WORKPLACE FREEDOM

Office design has come a long way since the 1950's-era cubicle farms. Today's furniture and design markets are fully engaged with wellness in the workplace. Companies are redesigning the workplace to boost overall health. Sit-stand desks are becoming an office norm and ergonomic consultants are on standby. Other trends include unassigned workstations allowing each employee to work where they want, when they want. Need some focus time? Hop into a privacy room built just for one and get in the zone! Looking to collaborate with your team? Grab your group and head to the office living room where you can brainstorm and innovate without disrupting anyone.

### SPACE FOR RESPITE

In today's workaholic culture, we often spend the majority of our waking hours at the office. Companies that recognize this and want to keep their employees happy are willing to help improve the workplace so that long work days are more manageable and productive. Some companies encourage you to bring your pet to work for a mental health boost. Others bring in masseuses weekly and have lunchtime yoga instructors. Three meals a day are offered at many companies to lure you to stay and work while enjoying a healthy meal. Everything from the personal phone booth, where you can call your doctor in private, to meditation rooms with relaxing water features and sound machines are perks companies can offer. Other trends include employee game rooms, fitness centers, daycare facilities and dry-cleaning services.

### MANAGE EXPECTATIONS

Much has been written in recent years about some companies and their legendary 80-100 hour work weeks. There's a growing backlash against this kind of workplace culture. If management is serious about creating a work life balance to improve health, communication and commitment are key. Companies that truly want their employees to enjoy their off hours find that they really must force their hand. Many are now shutting off work email access after 7pm. This strategy has proven effective for environments where the guilt of not working was just too strong. Good employees are going to rise to the expectations of their supervisors, which puts the burden on management to set healthy expectations not only for workloads but office culture and behavior as well.

Regardless of the reasons behind the influx of wellbeing initiatives in the workplace, the important factor is that these trends are helping. They educate and motivate employees to put themselves first and their job second so they may create a work-life balance as best they can. It is also helping to reduce healthcare expenses while also improving many employee's contentment at work, improving performance. There are many wellness resources available to companies of all sizes. The main tenets of a workplace wellness program are awareness, education and behavioral change. These things can take time to adjust to, so companies are advised to take one step at a time and eventually all can enjoy the benefits of a healthier workforce.

## What's the Purpose of Repurposing? *by Dan Greenstein, Partner*

Repurposing is defined as modifying an item to fit a new use, or using the item in a new way. It's essentially a form of recycling. With respect to real estate, it includes transformation of properties, such as an office building becoming a hotel or residential property, a shopping center becoming a call center or college, a manufacturing facility becoming office space, and so on.

In Portland we have recently seen an abundance of repurposing as properties become "functionally obsolescent." Often associated with distressed property, our examples of repurposing have been associated with Portland's strong growth and economy. Examples are:

117 Preble Street

**117 Preble Street** – A six-story, 37,000 sf building located in Bayside and built in 1927 for manufacturing food products will be converted into residential apartments.

**443 Congress Street** – a seven-story, 38,500 sf downtown office building in which the upper three floors will be converted to housing.

**68 Commercial Street (Maine Wharf)** – A former 150' fish pier extending into Portland Harbor, redeveloped as a seafood restaurant and the recently opened Portland Science Center museum.

443 Congress Street

**390 Congress Street** – the former Portland Press Herald headquarters building now home to the award-winning 110-room Press Hotel.

These are but a few examples of Portland's reuse of properties which have outlived their original intended use. Whether it be a specific building or the rebirth of a neighborhood, adaptive reuse of existing buildings is perhaps the ultimate example of "green" development as the entire structure revitalized to a new use.


68 Commercial Street

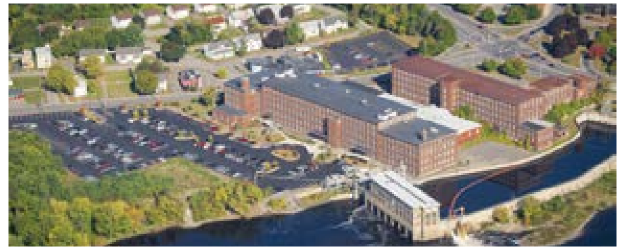
390 Congress Street

## Regional Market Observations *by Chris Paszyc, CCIM, SIOR, Partner*

### AUGUSTA-WATERVILLE

The State of Maine issued an RFP to lease a 225,000-square-foot office facility to house 1,400 state employees. The new facility could open in 2018. Proposals are due in early 2016 with a decision expected later in the year. Should this proposal move forward, we expect certain State-leased buildings throughout the City to become available over the next couple of years. Camden National Bank purchased The Bank of Maine in late 2015. The merger resulted in redundant branches being closed, and back office employees being shifted. We expect a number of bank-owned facilities to be sold throughout 2016.

Colby College announced major long-term plans to invest in downtown Waterville. To date, they have purchased four downtown buildings with more announcements expected throughout 2016. In related news, Collaborative Consulting, a technology company from Burlington, Massachusetts, plans to create up to 200 jobs in the next few years in Waterville. The company will initially be housed in the Hathaway Creative Center, and will likely expand into adjacent buildings targeted for redevelopment.



Hatthaway Creative Center

The 9-acre former MDOT Maintenance Facility at the gateway to the State Capitol is under contract to be sold. The developers have plans for a significant multi-building office development. To date these plans have generated serious interest from users looking to upgrade or expand their facilities.

101 Capitol St., Augusta proposed redevelopment plan

### LEWISTON-AUBURN

In August, it was announced "The Barn" in Auburn had been sold to a group of Chinese investors. The group plans to create a new luxury tourism healthcare facility for wealthy Chinese citizens. The $40 million plan calls for 100 beds, and investors expect to see at least 5,000 Chinese citizens staying at the hotel in the first year.

In the industrial and logistics market, Hartt Transportation unveiled a 30,000 sf, $6.5 million truck terminal project off Exit 75 in Auburn. CEVA Logistics moved into Auburn and leased 47,000 sf in the former New England Public Warehousing space on Logistics Drive.

We also are aware of a major (100,000 sf+) industrial build-to-suit project planned, with construction anticipated for 2016.

In the office market, plans were announced for significant expansions by Carbonite, Paychex, and Maine Community Health Options. We expect this trend to continue in 2016.

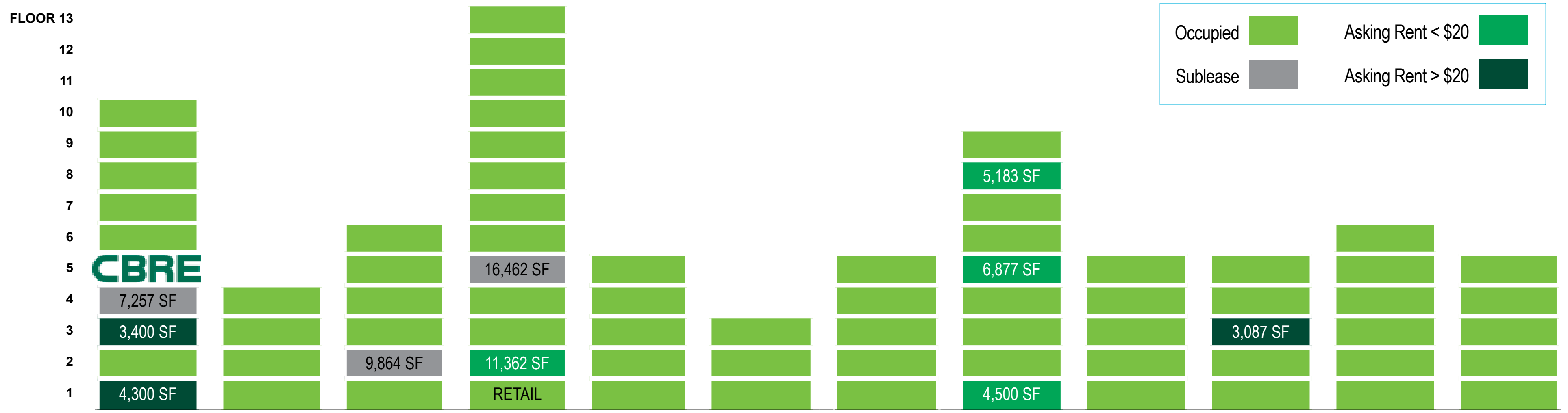
We expect 2016 to be the year when Exit 80 experiences retail expansion. We also predict this will be the year when the former Hannaford on the corner of East Avenue and Sabattus Street is redeveloped.

### MIDCOAST

The Midcoast Regional Redevelopment Authority (MRRA) has had another successful year with the sale and leasing of their assets at the former Brunswick Naval Air Station. In 2015, MRRA had $80 million of new redevelopment investment. In addition, Phase I of TechPlace began and immediately secured 15 tenants. We saw the vacancy trend reverse at Cook's Corner retail area with a number of new national tenants slated for 2016.

In 2016, there will likely be continued development around Brunswick Landing, Topsham Commerce Park and Cooks Corner. Further investment and stable demand for retail and office product along Maine Street in Brunswick and in Topsham is also expected.

## Downtown Class A Space and Asking Rates




| | One Canal Plaza | Two Canal Plaza | Three Canal Plaza | One City Center | Two City Center | 145 Commercial St | 254 Commercial St | 511 Congress St | 7 Custom House Street | 280 Fore Street | 300 Fore Street | 54 Marginal Way |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Building SF | 129,780 | 44,273 | 64,495 | 202,754 | 26,753 | 30,400 | 95,000 | 128,400 | 49,600 | 69,481 | 61,129 | 50,989 |
| Available | 7,700 | 0 | 0 | 11,362 | 0 | 0 | 0 | 16,560 | 0 | 3,087 | 0 | 0 |
| Occupancy | 94% | 100% | 100% | 94% | 100% | 100% | 100% | 87% | 100% | 96% | 100% | 100% |
| Sublease | 7,257 | 0 | 9,864 | 16,462 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |


| | 63 Marginal Way | 84 Marginal Way | 100 Middle East Tower | 100 Middle West Tower | 130 Middle St | One Monument Sq | Two Monument Sq | 25 Pearl Street | 27 Pearl Street | One Portland Sq | Two Portland Sq |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Building SF | 34,000 | 102,804 | 106,149 | 99,600 | 32,000 | 114,400 | 119,442 | 32,000 | 46,767 | 190,000 | 145,000 |
| Available | 0 | 0 | 0 | 24,065 | 0 | 14,058 | 0 | 0 | 10,020 | 0 | 2,477 |
| Occupancy | 100% | 100% | 100% | 76% | 100% | 88% | 100% | 100% | 21% | 100% | 98% |
| Sublease | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

## Downtown Class A Portland Summary

| Address | Floors | Built | Renovated | Total Rentable '14 | Available SF '14 | Quoted Rent '14 | Vacancy Rate '14 | Total Rentable '15 | Available SF '15 | Quoted Rent '15 | Vacancy Rate '15 | Sublease '15 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| One Canal Plaza | 10 | 1970 | 1994 | 129,780 | 14,157 | $24.25 | 10.91% | 129,780 | 7,700 | $23.75 | 5.93% | 7,257 |
| Two Canal Plaza | 4 | 1972 | 1992 | 44,273 | | | | 44,273 | | | | |
| Three Canal Plaza | 6 | 1980 | | 64,495 | | | | 64,495 | | | | 9,864 |
| One City Center | 13 | 1984 | 1994 | 202,754 | 6,601 | $21.00 | 3.26% | 202,754 | 11,362 | $19.50 | 5.60% | 16,462 |
| Two City Center | 5 | 1985 | 1996 | 26,753 | 3,519 | $18.00 | 13.15% | 26,753 | | | | |
| 145 Commercial Street | 3 | 2000 | | 30,400 | | | | 30,400 | | | | |
| 254 Commercial Street | 5 | 1900 | 2011 | 95,000 | 1,700 | $19.50 | 1.79% | 95,000 | | | | |
| 511 Congress Street | 9 | 1974 | 1996 | 128,400 | 5,365 | $17.50 | 4.18% | 128,400 | 16,560 | $17.50 | 12.90% | |
| 7 Custom House Street | 5 | 2000 | | 49,600 | | | | 49,600 | | | | |
| 280 Fore Street | 5 | 2004 | | 69,481 | 3,087 | $23.00 | 4.44% | 69,481 | 3,087 | $23.00 | 4.44% | |
| 300 Fore Street | 6 | 2007 | | 61,129 | | | | 61,129 | | | | |
| 54 Marginal Way | 5 | 2002 | | 50,989 | | | | 50,989 | | | | |
| 63 Marginal Way | 4 | 2007 | | 34,000 | | | | 34,000 | | | | |
| 84 Marginal Way | 10 | 2008 | | 102,804 | | | | 102,804 | | | | |
| 161 Marginal Way* | 4 | 2000 | | 50,400 | 50,400 | $23.34 | 100.00% | n/a | | | | |
| 100 Middle Street East | 7 | 1986 | | 106,149 | | | | 106,149 | | | 0.00% | |
| 100 Middle Street West | 7 | 1986 | | 99,600 | | | | 99,600 | 24,065 | $23.00 | 24.16% | |
| 130 Middle Street | 4 | 1981 | | 32,000 | | | | 32,000 | | | 0.00% | |
| One Monument Square | 10 | 1973 | | 114,400 | 66,215 | $22.00 | 57.88% | 114,400 | 14,058 | $22.00 | 12.29% | |
| Two Monument Square | 9 | 1980 | 1996 | 119,442 | 24,755 | $22.00 | 20.73% | 119,442 | | | 0.00% | |
| 25 Pearl Street | 3 | 1989 | 1999 | 32,000 | | | | 32,000 | | | | |
| 27 Pearl Street | 4 | 1971 | 1993 | 46,767 | | | | 46,767 | 10,020 | $21.10 | 21.43% | |
| One Portland Square | 10 | 1987 | | 190,000 | | | | 190,000 | | | 0.00% | |
| Two Portland Square | 7 | 1990 | | 145,000 | 2,549 | $28.50 | 1.76% | 145,000 | 2,477 | $27.00 | 1.71% | |
| TOTALS | | | | 2,025,616 | 178,348 | | 8.80% | 1,975,216 | 89,329 | | 4.52% | 33,583 |

*In 2014, our survey included 161 Marginal Way as a vacant building after DHHS moved. It has now been fully leased by medical users, prompting us to move this property to the Medical Office segment of the market.

## New England Overview

After a slow and steady recovery it is time to officially say goodbye to the effects of The Great Recession. At this time two years ago the national economy experienced stabilizing capital markets, increasing consumer confidence and improving national labor conditions. These trends continued throughout 2015 and in many cases gained traction.

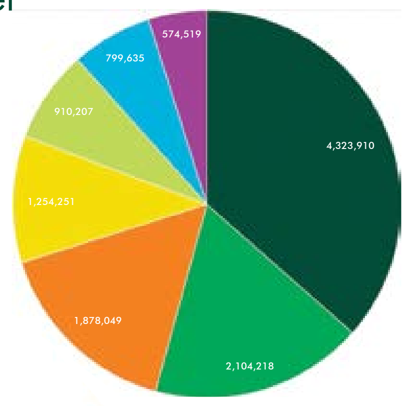
Reflecting back on 2015, the U.S. economy continued to build on the growth felt throughout 2014. At the beginning of the year, the national unemployment rate stood at 5.7 percent, and by November the metric had dropped 70 basis points to 5.0 percent, its lowest level in almost 8 years. U.S. GDP growth continued to expand in the third quarter of 2015 growing by 2.0% with household spending and fixed investments remaining robust but inventories growing slightly less than expected. 2015 ended up as one of the best years of job growth since 1999, adding on average more than 200,000 jobs per month through November. Looking ahead the Bureau of Labor Statistics (BLS) continues to predict the U.S. will return to full employment by 2020 (indicating a 4-5% unemployment rate) with the strongest job growth in healthcare and social assistance.

The New England Economic Project (NEEP) projects an average annual rate of growth for the New England economy of 2.4% through 2018, a rate slightly below the projected national average of 2.7% for the same period. Growth of the regional economy is expected to peak in 2015 at 2.9% and then level off and remain at

2.7 through 2016.

The venture capital investment market spiked in the third quarter of 2015 across the New England region, rising 39% to $2.1 billion across 125 deals according to the latest MoneyTree survey by PricewaterhouseCoopers. This increase in activity allowed the New England region to surge ahead of the NY Metro area by over $300 million in the third quarter. Leading areas on investment in the New England market were once again the biotechnology and software sectors. While the New England region and the NY Metro region remain competitive with each other across this metric, the Silicon Valley region remains the clear front runner, receiving $7.9 billion for the third quarter of 2015 across 337 deals.

## Greater Portland's Office Market




Total Market Survey
11,844,789± SF

- Downtown Portland
- Maine Mall Area
- Suburban Portland
- Medical
- Falmouth, Cumberland, Yarmouth
- Scarborough, South Portland
- Westbrook

## Notes & Credits

Information contained herein is researched and provided by our in-house staff of administrative assistants, associates, associate brokers and brokers.

We have included, to the best of our knowledge, all Class A & Class B office buildings in the Greater Portland area. Please feel free to contact us if we have inadvertently missed one.

Survey data collected is current as of 12/1/2015. Rents are shown as modified gross and defined as all expenses included, except electricity for lights and plugs, tenant's janitorial and parking. Rents not quoted as modified gross were converted by the addition of an estimated $1.50 for HVAC and common area maintenance expenses as reported by owner.

Retail space is not included in this Survey.

Net Absorption measures the total amount of square feet leased over a period of time minus space vacated during the same period.

Rental rates outlined in this Survey reflect rates for direct lease availabilities. When a range of rental rates are available, the prevailing rate is reported. Only direct lease rates are quoted in cases when direct and sublease space is available. When only sublease space is available, no rate is quoted.

Definitions of Class A & B office buildings vary between markets. We define Class A office buildings as those that are investment-grade properties featuring a unique design with immediate access to parking. They must be ADA-compliant and benefit from highly professional property management. Class B office buildings are considered to offer utilitarian space without special amenities, are of ordinary design, except for historic, renovated buildings and feature good maintenance with all floors handicapped accessible.

Please note that outside the context of this report, the Greater Portland market uses many definitions and thus any building noted herein may, as a matter of opinion, fall into a different category in the open marketplace.

## Mike Scarks 1953 - 2015

In 2015, we lost a friend and a client, Mike Scarks, who passed away suddenly in early March. We dedicate the 2016 Market Outlook in his honor.

Many who don't know his name have seen the impacts of his accomplishments throughout Maine – one notable example is the former Nissen Bakery on Washington Avenue in Portland, which underwent a successful revitalization in the early 2000's driven by Mike's vision, skill, perseverance and talent. While we were all blessed to know Mike primarily in his capacity as a developer, he'll be remembered for his very full life – an accomplished pilot, traveler, and family man, who gave so much to our community through local organizations.

One of Mike's closest friends was Tony McDonald, a Partner here at CBRE | The Boulos Company. Mike and Tony could often be found in Mike's plane or helicopter, taking a day trip to Presque Isle or Lincolnville to evaluate a property, or in one of Portland's many restaurants, where they shared a love of big meals and inspired conversations.

As we adjust to life without Mike, our hearts are heavy but we are thankful to have had his incredibly positive and enlightening presence over the past couple of decades. Our thoughts are with his wife, Julie, his son, Stefan, and daughter Kayley. He was truly one of a kind and we are all better for having known him.