THE BOULOS COMPANY

2019
GREATER PORTLAND
MARKET OUTLOOK

A MESSAGE FROM OUR MANAGING DIRECTOR

A lot can change in a year and more changes are on the horizon in Portland, Maine. We are witnessing unprecedented rent appreciation and significant new construction projects in Greater Portland. There is tremendous momentum in a few key sectors and we will provide detail on the evolving markets here in our 2019 Market Outlook for Greater Portland. Our team has worked diligently to research and report on the trends and factors influencing our market to help guide your real estate decisions for the coming year. In 2018 we experienced robust activity in the market, with several significant transactions taking place. Of particular note is the Vets First Choice (changing name to Covetrus in Q1 2019) build-to-suit lease transaction. Greg Boulos represented the tenant in a lease of nearly 164,000 SF located at 12 Mountford Street on the Shipyard Brewery site in Downtown Portland. Vets First Choice plans to move into their new location in 2020 and this project represents the largest new office building since Portland Square was developed in the 1990s. The new development is just blocks away from Portland's other significant Class A office development of the WEX headquarters of 100,000 SF on Portland's east end waterfront.

In addition to all of the development and brokerage activity, 2018 was one of change for us at The Boulos Company. In December, we announced the end of our 17-year partnership with CBRE. This is a bittersweet transition for us as we have valued our relationship with CBRE over the years. However, when faced with the option of selling our business lines and becoming a corporate office or remaining independent, we took stock of who we are as a company and what best serves our market, and the choice was clear – we want to remain a locally owned and controlled company. Please check out our new, improved website at www.boulos.com.

This past year, we also recruited new people in operations, marketing and sales roles. In bringing on new people we decided it was a good time to update our company's core values. Respect, Integrity, Passion, Collaboration, Balance and Excellence were the values chosen by our team and we wholeheartedly embrace them in our work.

As we enter 2019, we expect new challenges and opportunities for our clients. Vacancy rates continue to push lower, investment product is in high demand but short supply and unemployment rates remain at historic lows. Interest rates are starting to trend upward and construction costs are high, but we still find new construction as a viable alternative for many companies seeking more efficient facilities and modern office space. The strong economy has put a strain on a tight real estate market and the construction industry, as it is difficult for occupiers to locate suitable space and for builders to keep up with demand. We strongly recommend prospective tenants and buyers begin their searches at least 18 months prior to expected occupancy in this market.

We wish you the best of luck in the coming year and as always, our team stands ready to put their knowledge and talent to work on your behalf. Thanks to all of our customers and clients for your business and support.

Sincerely,

Drew Sigfridson, SIOR

THE BOULOS COMPANY

CORE VALUES

EXCELLENCE
Exceed expectations through diligence, expertise, and exceptional service.

INTEGRITY
Do the right thing. Period.

RESPECT
Consider all voices. Value all contributions.

COLLABORATION
United in the service of our clients.

PASSION
Embrace and explore elements of life and work that bring you joy.

BALANCE
Work hard. Play hard.

TABLE OF CONTENTS

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OFFICE MARKET OVERVIEW

BY NATE STEVENS, BROKER

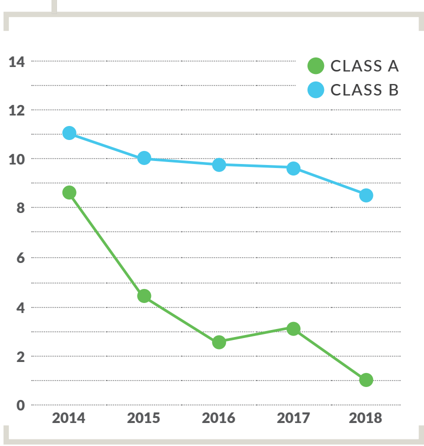
The strong office market throughout Greater Portland continued in 2018 as vacancy rates fell for the ninth consecutive year. A survey of 347 Class A and Class B office buildings, totaling just over 12,400,000 square feet, in seven submarkets, found that the total vacancy rate, including sublease space, fell to 4.18%, down from 4.4% in 2017 and the lowest rate since 2000. Four out of the seven submarkets had a drop in vacancy with the remaining three showing little increase. Several large transactions shaped the majority of the movement in most submarkets, and the popularity of downtown Portland continues.

Downtown

After a slight increase in the 2017 vacancy rates for the downtown submarket, totaling almost 4,400,000 square feet, there was a significant decrease to a direct rate of 4.90%, down from 6.76% the year before. Options remained extremely limited for companies seeking Class A space. With available space in only five Class A downtown buildings, totaling 22,000± SF and no vacancies over 6,000± SF, Portland's Class A vacancy rate has gone down to 1.04%. WEX's new headquarters at 0 Hancock Street increased the Class A space in 2018 by 100,000 ± SF however this had little to no effect on the overall market and resulted in direct positive net absorption. Additional buildings are slated to be added over the next few years, which will continue to increase downtown market size and meet the demand from growing companies.

Surprisingly, the Class B office market vacancy rate dropped from 9.85% in 2017 to 8.59%, even though overall transaction activity continued to be light. While this drop is impressive, it's misleading, as it can mainly be attributed to the sale of 477 Congress Street. Once a large hindrance due to its low occupancy the 150,000± SF building—historically known as the Time and Temperature Building—made up roughly 6% of the Class B market space has been removed from our survey. In it's currently configuration, future plans for the Time and Temp do not specifically include office space. In addition, 50 Monument Square, a 36,000± SF Class B building, sold last spring and the three vacant floors totaling 18,000± SF are being converted to apartments. Despite 477 Congress being removed from the survey, the majority of Class B vacancies were concentrated in the Monument Square area, while smaller buildings in the Old Port are in higher demand, albeit at higher asking lease rates.

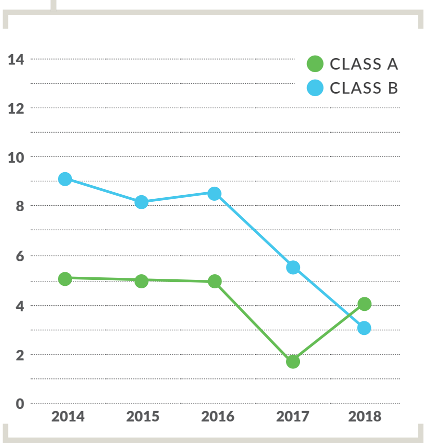
DOWNTOWN VACANCY RATES



Suburban

The suburban market, made up of several submarkets including Suburban Portland, Falmouth/Cumberland Yarmouth, Westbrook, Maine Mall Area, and Scarborough/South Portland, increased slightly to a direct rate of 3.76% after a sharp decline in 2017. Despite the increase, the rate remains much lower than prior years which can be largely attributed to two large vacancies. At two Delorme

SUBURBAN VACANCY RATES

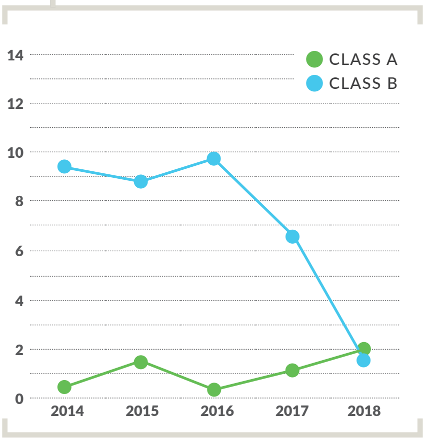


Drive in Yarmouth, 52,000± SF of warehouse space has been transformed to Class A office space, yet to be leased. This building represents the predominant driver for the increase in the overall Class A market, up to 4.09%. In addition, Bottomline Technologies vacated 34,500± SF at 65 Gannet Drive in South Portland and relocated to 13,000± SF at 75 John Roberts Rd resulting in 21,282± SF of negative absorption. The Class B vacancy rate dropped slightly to 3.17%, even with a 48,000± SF vacancy at Two Davis Farm Road in Portland, which attests to the activity in spaces under 10,000± SF in the Class B market in 2018.

Medical

Over the past several years the medical office vacancy rate has steadily declined, however in 2018 there was a slight uptick to 3.76% for both Class A and Class B buildings. While not a significant increase it is interesting that Class A rates increased three percentage points to 4.09%, while the Class B rate fell three percentage points to 2.48%. In recent years some of the largest suburban office leases were by medical-related companies or Class B office buildings being retrofitted to medical office space. This trend continued in 2018 with Maine Health master-leasing 222 St. John Street, eliminating about 19,000± SF of vacancy from the suburban Portland Class B market. Several projects are in the pipeline for 2019, when medical-related transactions will again shape the Greater Portland office market.

MEDICAL VACANCY RATES



Photos:
View of Middle Street in Portland
Portland waterfront

2018 VACANCY RATE SUMMARY

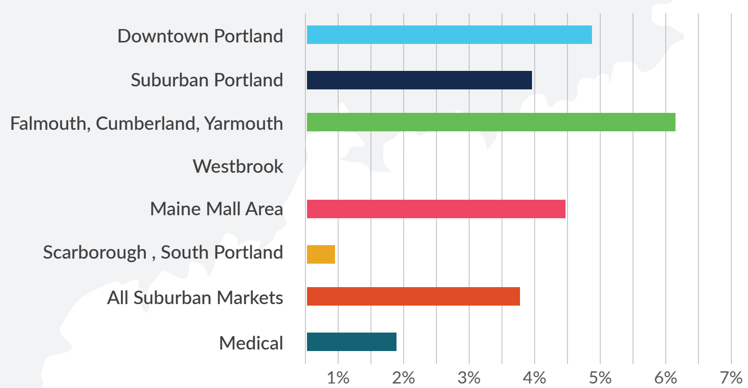
ABSORPTION

12.1.2018 Total SF Occupied
11,926,462

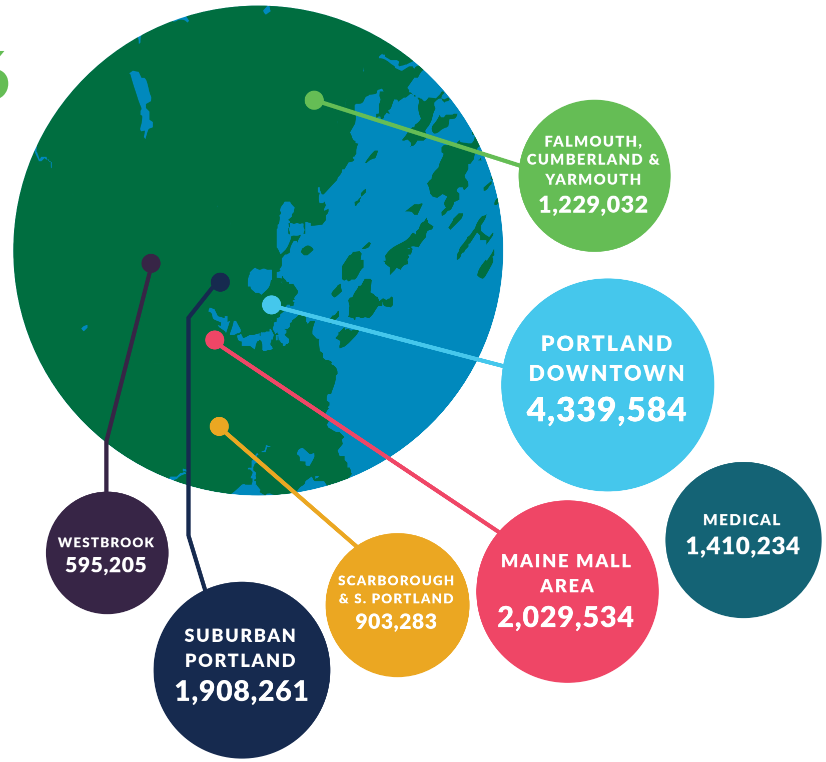
12.1.2017 Total Occupied
11,563,096

363,366
SINCE 2017

2018
TOTAL VACANCY RATES



SUBMARKET SIZE

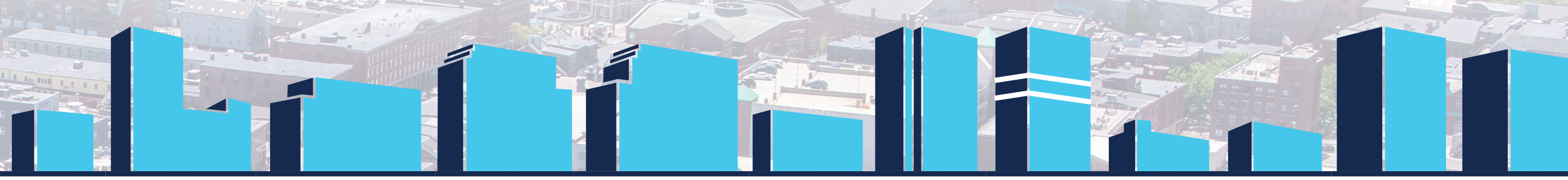


All data represented as of December 1, 2018.

LOCATION	CLASSIFICATION	Total Rentable '18	Available SF '17	Vacancy Rate '17	Available SF '18	Vacancy Rate '18	Sublease '18
Downtown Portland	Class A	2,121,702	63,574	3.17%	22,156	1.04%	7,619
	Class B	2,217,882	229,315	9.85%	190,417	8.59%	-
	Subtotal	4,339,584	292,889	6.76%	212,573	4.90%	7,619
Suburban Portland	Class A	975,947	12,537	1.32%	17,962	1.84%	-
	Class B	932,314	31,959	3.43%	57,474	6.16%	21,275
	Subtotal	1,908,261	44,496	2.36%	75,436	3.95%	21,275
Falmouth, Cumberland, Yarmouth	Class A	869,319	12,419	1.59%	64,016	7.36%	-
	Class B	359,713	19,485	7.44%	13,425	3.73%	-
	Subtotal	1,229,032	31,904	3.06%	77,441	6.30%	-
Westbrook	Class A	382,544	-	0.00%	-	-	-
	Class B	212,661	14,858	6.09%	-	-	-
	Subtotal	595,205	14,858	2.37%	-	-	-
Maine Mall Area	Class A	1,644,244	45,838	2.79%	84,175	5.12%	-
	Class B	385,290	44,397	10.74%	5,751	1.49%	-
	Subtotal	2,029,534	90,235	4.39%	89,926	4.43%	-
Scarborough, South Portland	Class A	378,888	9,075	2.56%	7,689	2.03%	-
	Class B	524,395	19,386	3.70%	-	-	1,800
	Subtotal	903,283	28,461	3.24%	7,689	0.85%	1,800
All Suburban Markets	Class A Suburban Total	4,250,942	79,869	1.94%	173,842	4.09%	-
	Class B Suburban Total	2,414,373	130,085	5.48%	76,650	3.17%	23,075
	Subtotal	6,665,315	209,954	3.24%	250,492	3.76%	23,075
Medical	Class A	1,001,163	10,500	1.08%	19,357	1.93%	-
	Class B	409,071	20,047	6.56%	6,249	1.53%	-
	Subtotal	1,410,234	30,547	2.39%	25,606	1.82%	-
	Class A Downtown, Suburban & Medical	7,373,807	153,943	2.17%	215,355	2.92%	7,619
	Class B Downtown, Suburban & Medical	5,041,326	379,447	7.58%	273,316	5.42%	23,075
	Total Office Space and Vacancy - Direct Lease	12,415,133	533,390	4.41%	488,671	3.94%	
	SUBLEASE SPACE		24,826	0.21%	30,694	0.25%	
	Totals	12,415,133	558,216	4.61%	519,365	4.18%	

DOWNTOWN CLASS A SPACE AND ASKING RATES

	One Canal Plaza	Two Canal Plaza	Three Canal Plaza	One City Center	Two City Center	145 Commercial Street	254 Commercial Street	511 Congress Street	7 Custom House Street	280 Fore Street	300 Fore Street	0 Hancock Street	54 Marginal Way
Building SF	129,780	44,273	64,495	202,754	26,753	30,400	95,000	118,400	49,600	69,481	61,129	100,000	50,989
Available SF	7,706	-	1,675	-	-	-	5,609	2,200	-	-	-	-	-
Price/SF MG	$23.75	-	$23.75	-	-	-	$25.00	$26.50	-	-	-	-	-
Occupancy	94.06%	100%	97.40%	100%	100%	100%	94.10%	98.29%	100%	100%	100%	100%	100%
Sublease	7,257	-	-	-	-	-	2,450	4,485	-	-	-	-	-
Floors	10	4	6	13	5	3	5	9	5	5	6	4	5
Built	1970	1972	1980	1984	1985	2000	1900	1974	2000	2004	2007	2018	2002



63 Marginal Way	84 Marginal Way	16 Middle Street	100 Middle East Tower	100 Middle West Tower	130 Middle Street	One Monument Square	Two Monument Square	25 Pearl Street	27 Pearl Street	One Portland Square	Two Portland Square	TOTALS
34,000	102,804	42,154	106,149	99,600	32,000	114,400	119,442	32,000	46,767	190,000	145,000	**2,007,368**
-	-	-	-	-	-	-	4,966	-	-	-	-	**22,156**
-	-	-	-	-	-	-	$21.50	-	-	-	-	
100%	100%	100%	100%	100%	100%	100%	95.84%	100%	100%	100%	100%	**98.95%**
-	-	2,900	-	-	-	-	-	-	-	-	-	**17,092**
4	10	5	7	7	4	10	9	3	4	10	7	
2007	2008	2017	1986	1986	1981	1973	1980	1989	1971	1987	1990	

CAPITAL MARKETS OUTLOOK

BY CHRIS PASZYC, CCIM, SIOR, PARTNER

National Trends
Despite a rising interest rate environment, investment in national commercial real estate year-to-date was $394.2 billion, up 10.6% from a year ago. For context, 2015 had the largest volume of transaction activity—$569 billion—since the 2009 bottom ($69 billion). 2017 was slower ($487 billion) than 2016 ($511 billion) due to fewer properties available for sale.

In this current cycle, buyers are holding their assets longer, because they're having a difficult time finding prudent ways to invest sale proceeds, choosing instead to take advantage of the attractive lending markets to refinance. However, given the amount of money earmarked for commercial real estate investment and new construction pricing, we expect this trend to shift in what is perceived to be the late innings of the current real estate cycle.

International buyers boosted overall US investment, accounting for 16% of total volume, up 55% year-over-year from 2017. Greater New York, Greater Los Angeles and the San Francisco Bay Area attracted the most investment in Q3, accounting for 24.5% of all acquisitions. The top-15 markets accounted for nearly 61.4% of total Q3 investment volume.

Industrial, hotel, and multifamily cap rates decreased modestly year-over-year in Q3, while office and retail cap rates were essentially unchanged. Industrial cap rates remained lower than office for the fourth consecutive quarter, a new record.

Pricing for all property types except retail is at an all-time high, with slight deceleration in recent months. Increases in multifamily and office pricing continue to lead the national index, while industrial continues to have decelerating growth. However, it should be noted that industrial was the only sector class with positive gains in 2017.

Given rising interest rates, we're seeing traditional banks and borrowers favoring shorter term deals. Fannie Mae, Freddie Mac, and Farmers Home Administration are still very active, and widely considered to be the best options for multifamily deals. Life companies are very active – as the yield curve flattens, long-term fixed rates are becoming more attractive. Commercial mortgage-backed securities are still active, however higher pricing and availability of other sources are impacting their market share. There is still plenty of institutional and private equity available, with large sums of unspent cash committed to invest in commercial real estate. Overall, commercial mortgage production year-to-date is slightly softer than in 2017, with combined CMBS and GSE lending down by 3%.

Local Trends
Provided we see steady to growing employment statistics and capital is available, we expect continued strong demand for investment property statewide. While interest rates have increased over 2018, cap rates were essentially unchanged in most markets and sectors. Large scale multifamily assets and single-tenanted buildings with "A" credit long-term leases continue to trade in the lowest cap rate range. Similar to 2017, long-term fixed debt and historically low rates have been available for investors all year. There also continues to be a steady mix of out-of-state capital and local buyers demanding product throughout the State of Maine. Experts predict the rising interest rate environment will eventually impact commercial real estate pricing, however we have yet to experience the shift.

The Boulos Company facilitated more than $225.4 million in transactions on behalf of clients in 2018. Nearly $73 million of that volume represents investment transactions. The office sector, alone, accounted for 47% of the total sale transaction volume at over $40 million.

The most challenging factor in 2018 continued to be finding enough investment product to satisfy demand. We expect robust activity into the first and second quarter of 2019 as several investment properties are coming to market to capitalize on late-cycle market dynamics.

National Trends (source CBRE Capital Markets, Bank of America/Merrill Lynch and NorthMarq Capital)

2018 CAPITAL MARKETS TRANSACTIONS

BUILDING NAME	STREET NAME	CITY	SALE PRICE	SIZE (SF)	CAP RATE (%)	TYPE
Roundhouse Campus	125 Presumpscot Street	Portland	$11,575,000	71,000	7.0	Office
Mid Coast Medical Group	108 Centre Street	Bath	$8,200,000	20,000	7.0	Office
Brunswick Landing BEQ's	74 Neptune Drive	Brunswick	$6,250,000	190 Units	N/A	Multifamily
131 Topsham Fair Mall Road	131 Topsham Fair Mall Road	Topsham	$5,250,000	85,636	12.56	Retail
50 Monument	50 Monument Square	Portland	$4,250,000	35,910	3.6	Office/Retail
Mid Coast Medical Group Orthopedics	430 Bath Road	Brunswick	$3,600,000	16,800	7.2	Office
80 Exchange Street	80 Exchange Street	Bangor	$3,500,000	88,478	7.0	Office
Applebee's	599 Center Street	Auburn	$3,000,000	5,554	7.5	Retail
Capri Apartments	392 Western Avenue	Augusta	$2,800,000	57 Units	9.1	Multi-Family
River Gate at Saco Island	110 Main Street	Saco	$2,595,000	55,160	8.2	Office/Retail
305 Center Street	305 Center Street	Auburn	$2,285,000	22,000	6.7	Retail
22 Monument	22 Monument Square	Portland	$2,100,000	20,940	8.41	Office
Crown Lift Trucks	82 Scott Drive	Westbrook	$2,050,000	20,043	6.8	Industrial
Freeport Village Square	5 Depot Street	Freeport	$1,987,500	24,184	N/A	Retail
450 Clarks Pond Parkway	450 Clarks Pond Parkway	South Portland	$1,600,000	7.5AC	N/A	Land
5 Fundy Road	5 Fundy Road	Falmouth	$1,550,000	11,948	6.45	Industrial
Margaritas	378-390 Western Avenue	Augusta	$1,538,000	15,977	8.3	Retail/Office
167 Park Row	167 Park Row	Brunswick	$1,322,222	6,500	9.0	Office
TD Bank	217 High Street	Ellsworth	$1,300,000	2,766	6.8	Retail
Pine Environmental	29 Washington Ave	Scarborough	$1,295,000	13,000	8.5	Industrial
201 Main Street	201 Main Street	Westbrook	$1,270,000	13,439	7.08	Office
AutoZone	503 High Street	Somersworth, NH	$1,250,000	5,370	5.6	Retail
77 Danforth	77-83 Dartmouth Street	Portland	$1,000,000	6 Units	7.6	Multi-Family
169 Park Row	169 Park Row	Brunswick	$802,778	5,000	8.9	Office
Kyocera	1024 Forest Avenue	Portland	$780,000	8,752	8.08	Retail
76 Union Street	76 Union Street	Brunswick	$725,000	7 Units	7.83	Multi-Family
445 York Street	445 York Street	York Harbor	$675,000	3,130	7.85	Retail

Photos:
125 Presumpscot Street, Portland
River Gate at Saco Island, Saco
599 Center Street, Auburn
22 Monument Square, Portland

THE TRANSFORMING WORKSPACE

BY SAMANTHA MARINKO, ASSOCIATE

The ideal office space is an ever-evolving concept. Large, swanky offices that can double as a bar, as seen on Mad Men, are a thing of the past. Private offices with bulky desks and built-in shelves for three-ring binders are out. The corner office inevitably housing the CEO is no longer a given. The walls are coming

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Unassigned work stations in open-concept areas are #trending. Height-adjustable desks, walls made entirely out of plants or chalkboard, ping pong tables, plug-and-play lounge areas, phone booth-style rooms for private calls – the modern office is unrecognizable from offices of even just a decade ago.

The changes are not just in appearance. There's a new mindset prevailing in modern office design—a focus not just on how a space looks and functions, but how it makes its occupants feel: the wellness factor. Today's workspace design is about offering a holistic experience for its staff. When employees are comfortable in their environment, they're happier – and happier employees are more productive.

Workplace design can also be a powerful tool in attracting and retaining the best and brightest talent, which has been a motivating factor in workplace investment.

Primary assumptions of open work spaces are that they spark conversations with coworkers, enhance collaboration, and promote sharing and melding of ideas. The open environment is intended to build trust among employees, and create greater team synergy and efficiency by providing easy access to higher-ups at the company.

But –What if Google got it wrong?

Are the people sitting at open work spaces really breaking out in spontaneous brainstorming sessions? Is the proximity enhancing the collaboration and sharing of ideas as it was intended?

The first thing that comes to my mind is headphones. Concentrating, even on a simple email, can sometimes be a challenge when surrounded by colleagues on phone calls or having side conversations. And if you need to talk to someone, but from across the fishbowl you see that they're staring intently at a screen, wearing headphones (trying to look busy because everyone can see them), you may be less likely to interrupt and more apt to send a quick email.

Collaborative, open spaces have their place and their perks, but exclusively open offices with no sense of privacy or personal space may inadvertently detract from the overall comfort of employees.

Trends are just that – trends. There are some great takeaways from modern designs, but there's no one-size-fits-all office design solution. The workplace is constantly evolving. Ultimately, companies all have their own space needs and, trendy or not, the guiding principle is to find and follow what works best for you and your employees.

"Our research shows a clear link between employee satisfaction with their physical workplace and satisfaction with their company. This relationship supports the investment in the workplace not only as a recruitment and branding tool, but also as an invaluable means of achieving employee retention and high levels of worker satisfaction that contribute to good organizational outcomes." – Knoll, Inc.

Photos:
Kepware, Portland

2017 TAX REFORM IMPACT

BY CRAIG YOUNG, CCIM, PARTNER

The tax reform bill entitled "Tax Cuts and Job Act (TCJA)" that passed in December of 2017 represents the most sweeping reforms since the tax act of 1986. The new measures are set to have a significant impact on both individuals and businesses.

The bill will lower income tax rates for most individual tax payers, double the estate tax exemption to $11,200,000 per person, and double the child tax credit to $2,000. But it will undermine previous advantages such as the mortgage interest deduction for mortgages over $750,000. The bill will also reduce itemized state and local taxes to $10,000, and repeal moving expense deductions (except for members of the armed forces).

Businesses in general will be impacted in a number of ways, while some changes specifically affect commercial real estate. A few overall business changes include doubling bonus depreciation and eliminating the deduction for business entertainment; however, food and beverage business deductions remain intact.

From a commercial real estate perspective there are a number of advantageous changes, including a new tax deferral strategy called Opportunity Zones, and a change to how business parking costs are written off—you may want to revisit the terms of your lease.

Recent changes affecting commercial real estate include:

1. Opportunity Zones –In essence, if you sell something and incur a capital gain—real estate, a business, stocks, artwork—within 180 days of the sale, you can place the money into a qualified opportunity fund and defer the taxes on your gain until 2026. You also will not pay taxes on the interest income earned within the investment timeframe. There are, however, several qualifying conditions, which include investing in a designated Opportunity Zone. There are 32 Opportunity Zones in Maine (and more than 8,700 in the US). An investor can buy into a fund or directly purchase a property. The purchase also requires a significant investment in the redevelopment of that asset, which generally means an amount equal to or greater than the purchase price. In addition, the investment cannot be in a "sin" business—country clubs, golf courses, liquor stores, massage parlors, race tracks, or any gambling venue.

2. 1031 Like-Kind Exchanges – The final bill retains the current rules for real estate, but repeals the use of 1031 exchanges for personal property such as artwork, vehicles, animals, or other non real estate sales. Therefore, real estate like-kind exchanges remain a very valuable tax-deferral opportunity for real estate investors.

3. Pass-Through Deductions – A new 20% pass-through income deduction for real estate investors and businesses other than C-Corporations, including sole proprietors, LLCs, and S-Corps. There may, however, be limitations on single taxpayers with over $157,500 in adjusted gross income and those married, filing jointly with income over $315,000.

4. Section 199-A: 20% Tax Free Treatment – This tax break provides certain flow-through business income a 20% deduction, which essentially makes the first 20% of the profit tax-free. It applies to people who buy and flip real estate, landlord rental income, and 1099 independent contractor income (real estate brokers). It does not apply to W-2 wages, interest income, dividends, or capital gain income.

5. Rehabilitation Credit – The final bill repeals the current law's 10% credit for pre-1936 buildings. It retains the current 20% credit for certified historic structures, but modified, so that it is allowable over a five-year period, based on a ratable share, i.e., 20% each year.

6. Employee Parking Costs – The final bill says that no deduction can be taken for separately itemized parking costs associated with a business lease, but seems to allow the deduction if the parking costs are embedded within the lease and not separately identified. This change could be significant enough for a business to consider renegotiating its lease so that parking is included in the monthly/annual lease rate and not separately itemized and billed.

The IRS issued temporary guidance on the new tax reforms in August 2018. The final law is still not finalized and is subject to additional IRS changes and clarifications. As such, we encourage you to speak with your tax and real estate advisors to more clearly understand what the tax reform act means for you.

Photo right:
South Portland, Source: Dave Cleveland

OPPORTUNITY ZONES

BY DREW ANDERSON, JUNIOR ASSOCIATE

Over the past year, “Opportunity Zones” became a familiar topic of conversation among people dealing in commercial real estate. Investors, developers, accountants, and tax attorneys have been combing through documents to better understand the Opportunity Zone opportunity, and how they can be beneficial to investors.

With trillions of dollars in unrealized capital gains on the books of individuals and corporations, nationwide, the Tax Cuts and Job Act of 2017 established the Opportunity Zone Program in hopes of freeing up some capital. The program encourages long-term investments that will spur development in economically distressed communities. Private investors seeking tax-relief on capital gains can place those gains in a qualified opportunity fund (QOF). The fund will invest a minimum of 90% of its total assets in a specified project in an Opportunity Zone.

There are three primary tax advantages of investing in an opportunity fund. The first is a temporary tax deferral of capital gains that are reinvested. The deferred capital gains must be recognized when the opportunity investment is sold or December 31, 2026, whichever comes first.

The second is a step-up in basis for the capital gains invested in an opportunity fund. The basis of the original investment will receive a 10% step-up after being held for five years (meaning an investor will owe taxes on 90% of their original capital gains), followed by an additional 5% step-up if held for seven years.

The third tax advantage is a permanent exclusion from capital gains tax resulting from any income derived from the investment, or the sale or exchange of the investment in the QOF. This advantage is only realized if the investor holds their capital gains in the fund for ten years.

Those who wish to invest in an Opportunity Zone have six months to transfer their recently acquired capital gains into a qualified fund. However, if a property needs “substantial improvements,” an investor can hold their capital gains in a qualified fund for 30 months after the building/site is acquired, as long as there is a plan in place for a qualified project in an Opportunity Zone. This greatly benefits developers, as most projects take some time to commence.

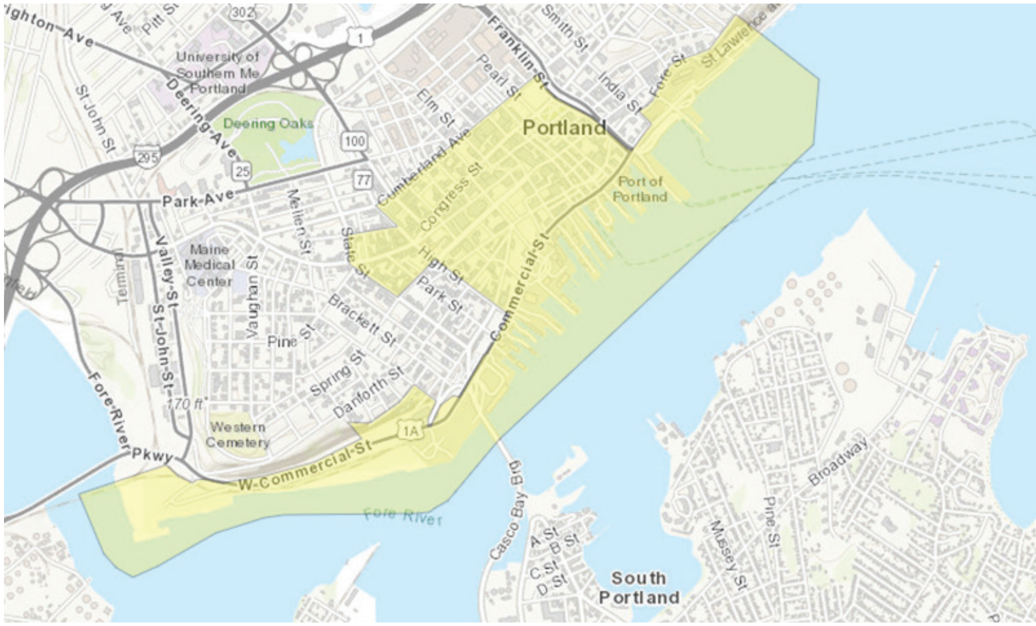
In October, potential investors received good news from the US Treasury Department regarding building rehabilitation. Those who invest in an existing building in an Opportunity Zone, are required to double the value of the building only—not the land. This will impact the amount of money flowing into rehabilitation projects versus new development. Although making improvements that cost as much as the building still requires a great deal of money, it really benefits investors not to have to include the land cost.

Other parts of the country are already seeing the positive impact of the Opportunity Zone Program. Certain distressed markets, such as the Bronx, have seen a 937.5% increase in the purchase of development sites in the first nine months of 2018, compared to the same time period in 2017. Salt Lake City has shown a similar uptick in developmental site purchases in Opportunity Zones, with sales not located in Opportunity Zones declining by 25%.[1] Further examination of the national landscape, shows that investors do favor certain Opportunity Zones over others.

Portland is primed to see growth through the Opportunity Zone Program, as the market is robust with potential redevelopment projects. Downtown Portland is filled with old historic buildings that could benefit from upgrades to their infrastructure. Portland should also attract out-of-state investors who are looking for cheaper product in a stable market, as building costs—which can lead to extensive redevelopment costs due to the aforementioned stipulations— are less expensive than in larger cities. Investors in Maine would be wise to invest in a QOF to reap the tax benefits, and to play an important role in strengthening the Maine economy, which has lagged behind the national market.

[1] https://app.rcanalytics.com/

Photos:
Portland Waterfront, Source: Dave Cleveland
Augusta Opportunity Zone, Source: Augusta, Maine
Portland Opportunity Zone, Source: Portland Press Herald



SPOTLIGHT: NEW DEVELOPMENTS

BY DEREK MILLER, ASSOCIATE BROKER

Strong demand and real estate fundamentals have continued to drive a development boom in the Greater Portland area. Interest from local, regional, and national tenants looking to expand and attract new talent has created a wave of projects across the city. The hospitality sector continues to lead the charge with office not far behind. Below we highlight some new projects and provide updates on others that were in the pipeline in Q4 2017 or Q1 2018.

OFFICE

- The largest office development announced in the past year with city approval is the new headquarters for Vets First Choice in Portland. The new facility, located at 12 Mountfort Street, is slated to be nearly 164,000 SF and house approximately 1,500 employees. In addition to office space, the property will feature a pharmacy, a fulfillment center, and multiple labs.
- The 100,000 SF WEX headquarters being built on the corner of Hancock and Thames Streets in Portland is nearing completion. The architecturally distinct design is a welcome addition to the Portland office market and the owners are in the process of negotiating deals for the first floor retail space. WEX has additional expansion plans in the works that would occupy, at least a portion of, two more buildings in close proximity, with structured parking.

HOSPITALITY

- The newest hotel in downtown Portland is the 150-room AC Marriott near the new WEX headquarters. This chic hotel offers ample natural light and a great bar overlooking the waterfront,for hotel patrons and downtown professionals looking for a change of scenery.
- Construction has begun on the Hobson's Landing development located at the former Rufus Deering Lumber Co. site. The development will be built in phases, beginning with Aloft-branded hotel featuring 155 rooms. The second phase will include 200+ residential units with first floor retail space.
- The Center Street Boutique Hotel, a 135-room high-end entry, is planned for the corner of Center and Commercial Streets in Portland. It will be six stories with a facade of glass and brick, and a rooftop patio.
- Pending the end of the 180-day moratorium on any new development projects to Portland's waterfront and city approval, a project for a 400-vehicle parking garage and Class A office space could begin on Central Wharf, Commercial Street.
- Hotels proposed at 58 Fore Street, 205 Commercial Street, and Thompson's Point are all still in the planning and preconstruction phase.

INDUSTRIAL

- An industrial development located at 2401 Broadway in South Portland that will offer units of various sizes in three different buildings is in the works. The property will likely be split into as many as 19 units, ranging from 3,000–28,500 SF.
- In Saco, two new developments are available for purchase as small industrial condos. The new buildings, located at 10 Mill Brook Road and 24 Industrial Park Road, are offering units ranging from 1,500-3,000 SF.

RETAIL

- Formerly known as Dirigo Plaza, a new owner/developer has taken over the project located at the site of the former Pike Industries quarry on the Portland/Westbrook line. This site has been master-planned for a 1,000,000SF+ lifestyle center that will be built in phases. The first phase will be a mix of regional and national retailers anchored by Market Basket. Future phases will include Class A office, medical, event, and residential components. The completed project will be the first of its kind in Maine; creating a nexus where residents and employees will have home, work, and play at their fingertips.

The Greater Portland area continues to attract new retailers, new office tenants, and new hospitality groups—the walkable urban environment is currently in high demand by employers, visitors, and residents alike. With large scale developments still in the works at Scarborough Downs, Thompson's Point, and Portland Foreside, we're optimistic that these trends will continue. By attracting new businesses and people to the Greater Portland region, developers can continue the strong, responsible growth that we've seen for the past decade.

Photos:
0 Hancock Street, Portland, Source: Steve Baumann
12 Mountfort Street, Portland, Source: Archetype Architects

REGIONAL MARKET OBSERVATIONS

Lewiston-Auburn & Midcoast Maine

BY TIM MILLETT, BROKER

Lewiston-Auburn
In 2018, new and existing businesses experienced growth; 2017's housing development projects were nearing completion; and substantial sales were transacted.

Growth

- Baxter Brewing, Maine's third largest brewer, expanded its tap room by 4,800 ± SF in Lewiston's Bates Mill.
- New to the scene, Side By Each Brewing Co. leased the former 10,480 ± SF Hammond Tractor building for a brewery, slated to open at year's end.
- Geiger, the largest privately held promotional products distributor in the world, renovated more than 40,000 SF of their corporate office space in Lewiston.
- Modula, leader in industrial automated storage solutions, expanded their existing footprint in Lewiston by leasing 30,000 ± SF of a new construction industrial building on Gendron Drive.
- Boston Brands of Maine expanded into 19,650 ± SF near their headquarters on Saratoga Street in Lewiston.

Housing Development

- 155 Lisbon Street, Lewiston—63 mixed-income units nearing completion Q1 2019, dubbed "Hartley Block."
- 48 Hampshire Street, Auburn—53 workforce housing units currently under construction.
- 477 Minot Avenue, Auburn—36 low-income housing units currently under construction.
- 63 Spring Street, Auburn—41 mixed-income units nearing completion Q1 2019.
- 1048 Turner Street, Auburn-—48 market-rate units breaking ground Q4 2018.

We expect continued redevelopment in downtown Lewiston thanks to the new Commercial Historic District, which allows property owners on Lisbon and Main Streets to take advantage of federal and state tax credits for building renovations (see overlay aerial). The success of this program is evident in the flurry of new investment in shops, restaurants, and apartments in 2018:

- 46 Lisbon Street—Former Lewiston Deposit & Trust, now Sofia Fima and apartments.
- 49 Lisbon Street—Former Fuel Restaurant, now Cowbell Tap and Grill .
- 110 Lisbon Street—Former Lamey Wellehan, soon The Curio Art & Alehouse.
- 12 Ash Street—Basement space renovated as Sonder & Dram, a cocktail bar.
- 199 Lisbon Street—Last occupied by Compass Coin and Jewelry, under renovation for mixed use.

LEWISTON-AUBURN MAJOR SALES

PROPERTY ADDRESS	CITY	TYPE	SALE PRICE	SF	PRICE/SF
65 Mt. Auburn Avenue	Auburn	Retail	$7,182,836	55,000	$131
599 Center Street	Auburn	Retail	$3,000,000	5,554	$540
1130 Minot Avenue	Auburn	Industrial	$2,800,000	75,000	$37
305 Center Street	Auburn	Retail	$2,285,000	22,000	$104
649 Turner Street	Auburn	Retail	$2,200,000	20,000	$110
777-785 Main Street	Lewiston	Industrial	$1,550,000	54,661	$28

Midcoast
Chart topping transactions took place from Freeport to East Boothbay in 2018. Maine Street Brunswick remained vibrant and development surrounding Cooks Corner and Brunswick Landing continued.

Brunswick Landing & Cooks Corner

- Wayfair is expanding their employee base by more than 500 people.
- Sitelines PA ,civil engineering and land surveying, relocated to Purinton Road.
- 200+ market-income units are slated for development by the Priority Real Estate Group in 2019.
- A ConvenientMD Urgent Care & Walk-In Clinic is under construction at 205 Bath Road, Brunswick.
- Summit Realty Partners is expected to announce redevelopment plans of Cooks Corner Shopping Center in 2019.

2018 saw large sales in all sectors—medical office, downtown office, industrial, and retail.

MIDCOAST MAJOR SALES

PROPERTY ADDRESS	CITY	TYPE	SALE PRICE	SF	PRICE/SF
108 Centre Street	Bath	Medical Office	$8,200,000	20,000	$410
74 Neptune Drive	Brunswick	Multifamily	$6,250,000	190 Units	N/A
Freeport Village Station	Freeport	Retail Land-Lease	$6,125,000	N/A	N/A
430 Bath Road	Brunswick	Medical Office	$3,600,000	16,800	$214
10 Church Street	East Boothbay	Marine Industrial	$3,265,150	39,700	$82
167-169 Park Row	Brunswick	Office	$2,125,000	11,500	$185
Freeport Village Square	Freeport	Retail	$1,987,500	24,184	$82
325 Bath Road	Brunswick	Industrial	$1,800,000	50,000	$36
11 Mallett Park Drive	Brunswick	Industrial	$1,314,000	27,563	$48

Photos:
108 Centre Street, Bath
10 Church Street, Boothbay, Source: Hodgdon Marine LLC
48 Hampshire Street, Auburn, Source: Andrew Rice, Sun Journal
Historical District, Lewiston, Source: Downtown Lewiston

REGIONAL MARKET OBSERVATIONS

Augusta, Gardiner & Waterville

BY NICK LUCAS, ASSOCIATE

Augusta

In fall of 2018, it was announced that a 250-unit apartment complex will be constructed at the intersection of Leighton Road and Civic Center Drive. The motivating factor behind this development is the need for housing for MaineGeneral Medical Center employees. Ideally, it will allow them to walk or bike to work just two miles away. According to local officials there has been a demand for quality rental units in Augusta. MaineGeneral will also be opening a new location in 2019, expanding into 13,000 ± square feet at 21 Enterprise Drive. The space was formerly occupied by the Career Center and will be converted into medical office space.

Positive energy continued with downtown Augusta's revitalization efforts in 2018. The former Odd Fellows Hall on Water Street, a 31,500 ± SF mixed-use building, sold in the summer of 2018. The developers are pursuing historic tax credits to redevelop the building, and the project should begin in 2019. The building is in an Opportunity Zone and will be one of the first Opportunity Zone projects to take place in the state. The plan is to convert the building into 30 market-rate apartment units.

In 2019, expect to see two significant construction projects come to a finish at the former DOT site on Capitol Street in Augusta. The first is a 26,000 ± SF office building for Maine Public Employees Retirement System. The second is a 104,000 ± SF office building for the Department of Health and Human Services.

In the fall of 2018 we also saw the Turnpike Mall in Augusta hit the sale market. The 214,900 ± SF shopping center has been one of Augusta's longtime retail magnets. The mall has attracted significant interest from investors locally and other parts of the country.

Gardiner

Construction has launched at the Central Maine Crossing site off of Brunswick Avenue in Gardiner. MaineGeneral Medical Center is planning to construct a 16,000 ± SF medical office building for imaging and an urgent care facility. The Fresenius Medical Care opened its new 8,000 ± SF facility at the former site of T.W. Dick Parcels on Summer Street. 189–193 Water Street, Gardiner has seen extensive renovations over the last few years. The former Gosline Insurance building has been converted into retail on the first floor, and two high-end apartments on the third floor. Renovations have started on the second floor where the developers are planning on constructing two more high-end apartments. In 2019, the project will be complete and the building will be 100% occupied.

Investment properties that have sold include:

- 23–29 Bowdoin Street, Manchester—the 14,800 ± SF single-story, multi-tenant, professional/medical office building sold as an investment for $2.3 million in late 2018. Known as Manchester Place, tenants include Northern New England Diagnostics, Northern New England Primary Care, Central Maine Clinical, and Insight Premier.
- Capri Apartments in Augusta—sold for $2.8 million. Capri Apartments is a 32,600 ± SF, 57-unit apartment building, made up of 53 one-bedroom units and 4 two-bedroom units.
- 390 Western Avenue in Augusta—a 13,648 ± SF single-story building sold as an investment for $1.53 million. Tenants of the building included Margaritas, New Beginning Flooring, and Edward Jones.

Waterville
In 2018, Waterville is still continuing to see growth and redevelopment on its Main Street, which is spearheaded by Colby College, the Alfond Foundation, and investors statewide. A prime example of this was the Arnold Block, which sold in early 2018. The Arnold Block is a 21,627 ± SF mixed-use building that came to market for the first time since 1872. Also in the fall of 2018, the new 100,000 ± SF Colby College residence hall opened on Main Street. The building houses 200 students and eight faculty members, with 4,000 ± SF of retail space. Camden National Bank also recently became a tenant at the residence hall in newly constructed office space on the first floor. Downtown is not the only area in Waterville seeing growth. A new 13,500 ± SF building was constructed at the Penny Hill Park on Kennedy Memorial Drive. Waterville Pediatrics recently moved to the space and is occupying approximately half of the building. In 2019 we anticipate Waterville will continue its transformation and growth, as we may see two more vacant buildings at the Hathaway Creative Center developed. Stay tuned.

Photos:
295 Kennedy Memorial Drive, Waterville, Source: Bill Mitchell
390 Western Avenue, Augusta
23-29 Bowdoin Street, Manchester

OFFICE RELOCATION TIPS

BY JESSICA ESTES, PARTNER

OK, we're moving. Now what?

Once it becomes evident that your current location no longer supports your business operations and you've made the difficult decision to search for new space, the journey is just beginning. There is no way to overstate the enormity of this task, and your team will be asked to perform many extra duties. If you take a few deliberate steps at the outset and tackle your due diligence in the early days, you'll be rewarded with a much smoother move and a team that's involved and engaged in the process.

1. Poll your employees. Regardless of what kind of business you run, the people who spend every day working in the office, warehouse, or storefront have ideas about whether the space supports or hinders their work. Ask if they're in close proximity to coworkers they collaborate with on a regular basis; whether there's a space to go for uninterrupted deep work; and if the existing technology supports their work.

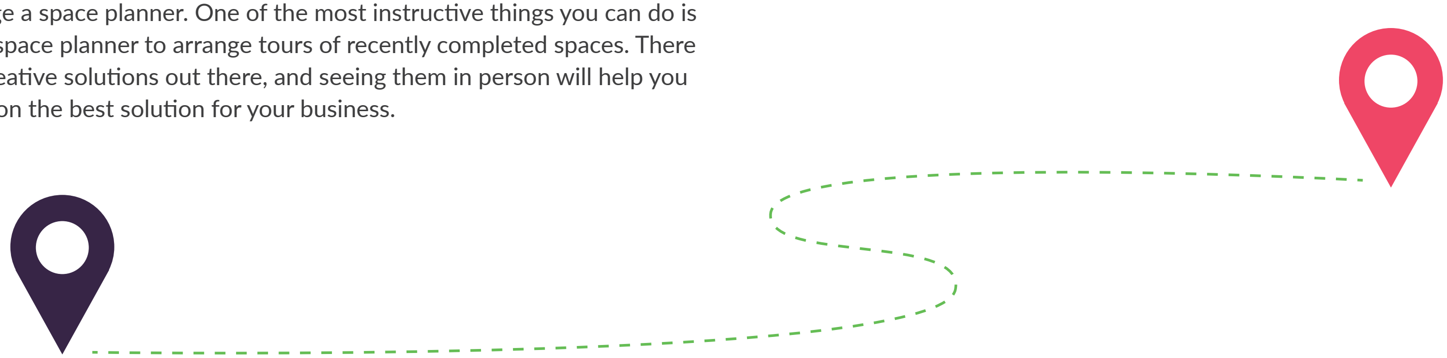
2. Do some mapping. Plot every employee's home zip code on a map to determine where your operations would ideally be located. You might be surprised to find, for example, that a significant portion of your workforce lives west of Portland. Maybe there's a great deal on real estate in Westbrook that you wouldn't have considered otherwise.

3. Engage a space planner. One of the most instructive things you can do is ask a space planner to arrange tours of recently completed spaces. There are creative solutions out there, and seeing them in person will help you envision the best solution for your business.

4. Dig into the books. Look at your expenses, including travel and costs for hotel rooms for visiting out-of-town employees and guests. How can a new location minimize these costs? You could take a page from Tilson Technology's playbook. They built short-term living quarters into their new office space at 16 Middle Street.

5. Get your IT people involved early. Great technology can solve a lot of problems. Automated conference room scheduling, video conferencing, and the ability to work remotely can add value to your real estate.

Finally, visit www.boulos.com for our relocation guide. It will help you plan your move and minimize last minute scrambling when the big day comes.



Photos:
16 Middle Street, Portland
Old Port, Portland

SPOTLIGHT: SUBURBAN DEVELOPMENT

BY BRICE O'CONNOR, ASSOCIATE & JON RIZZO, ASSOCIATE BROKER

Portland's Downtown popularity continues to increase, driving real estate to become a scarce commodity on the peninsula. As a result, expansion is happening in the neighboring areas. Two large scale mixed-use developments are staged to provide exciting alternatives for those who want to be located in the Portland area. These alternatives include The Downs, located in Scarborough, as well as Rock Row, located in Westbrook.

THE DOWNS

The 500-acre site of the iconic Scarborough Down racetrack has been re-branded "The Downs." The exciting mixed-use development will comprise a modern town center with supporting commercial and residential elements. With Scarborough's current retail and commercial users stretched along US Route One, the development aims to create a center point for the business and surrounding residents to gather. This project will create a wide variety of recreational opportunities consisting of walking paths constructed throughout 200 acres of preserved natural space. The Downs development is commencing an exciting new chapter and redefining the urban landscape in greater Portland. Here are a few highlights.

Innovation Park

A planned Innovation Park will offer various size land parcels available for sale to meet a variety of business uses. With road infrastructure in place, sites will be cleared and graded with utilities on site. Utilities will include:

-3 Phase Power
-Municipal Water and Sewer
-Natural Gas
-Fiber optics
-Storm water system

Essentially, purchasers will save approximately 12 months of time that it typically takes to complete a site search, a survey, wetland/soil/environmental studies, a traffic study, a sewer impact fee analysis, bringing utilities to the site, DEP permitting, and storm water installation. This will all be completed and the items that a purchaser is responsible for is site work for building and parking and site plan approvals.

Photos:
Caleb Johnson and Aceto Landscape Architects + Urbanists
Gorrill Palmer

Residential

Focused on being a community development, the project is planned to offer several residential components. Phase 1 proposes a 30-lot single-family subdivision, 24 duplex cottages, 24 garden condominiums, and a 56-unit apartment complex. The full development is poised to create 1,986 new housing units added to the town's current 8,508 housing units.

Amenities

- + Town Center that will be focused on community and retail space through a renovation of the iconic and historical Scarborough Downs grandstand building
- + 200 acres of green space
- + Maine's first industrial business park in 25 years
- + Approximately 2,000 new housing units
- + Mixed-use entertainment and sports venues
- + Retail and service components

SPOTLIGHT: SUBURBAN DEVELOPMENT, CONT.

ROCK ROW

The former 26-acre Pike Industries quarry is undergoing a transformation as part of a 100-acre mixed-use development. With plans for office, retail, residential, and hospitality, the site is expected to re-shape the surrounding area. Located on the Portland-Westbrook line and adjacent to I-95, Rock Row aims to attract businesses, employees, and residents, with its ease of access and various amenities. Here are a few highlights.

Retail

Anchored by an 80,000 SF Market Basket, Rock Row is slated to offer 450,000 SF of retail. Market Basket is being constructed in phase one of the development and expected to open in the fall of 2019 along with smaller retail suites. In phase two of the development, a village-like epicenter will be added with retail suites targeted for local shops and national brands.

Office

The developer plans to build 300,000 SF of office space, comprising loft offices in the village area and a Class A office tower, as well as 100,000 SF of medical office space. This development will create a 4.5% increase to the entire Greater Portland Suburban office market and outpaces growth of the past five years.

Beer and Food Hall

A planned 25,000 SF beer and food hall will showcase Portland's impressive foodie culture. The hall will comprise two stories offering seven beverage tasting rooms and 15 food vendors.

Additional Amenities

Rock Row aims to create a centralized community with 750 residential units, and the following additional perks:

+ On-site daycare and healthcare facilities
+ Recreational trails connecting to 70 miles of preexisting trials
+ 8,200-Person Concert Venue
+ Two Hotels
+ Two-Screen Movie Theater

The combination of these two massive developments are expected to re-shape the Greater Portland suburban market. The Downs will provide Scarborough with a town center which its residences have long desired. Rock Row will help to accelerate economic growth in the Westbrook area which has long lagged behind surrounding towns. Both the Town of Scarborough and the City of

"The beer and food hall is not only an unparalleled business opportunity for restaurants and vendors but an invitation to help shape a vibrant new culinary community here at Rock Row,"

- JOSH LEVY, CO-FOUNDER AND PRINCIPAL AT WATERSTONE PROPERTIES GROUP

Westbrook are in support of the developments, granting tax increment financing (TIF) agreements to the developers. In support of Maine's economy, The Downs is expected to create 2,400-3,350 new jobs, with Rock Row expected to add over 1,000 new jobs.

Although the developments offers attractive amenities and new jobs, the suburban office market may have difficulty absorbing such a large addition of space. This additional square footage combined with the new urban development of Portland's Eastern Waterfront drawing large companies to downtown, we are likely to see an uptick in suburban office market vacancy rates in the coming years.

Photos:
Waterstone Properties Group

ABOUT US

Northern New England's Commercial Real Estate leader, The Boulos Company, is dedicated to serving commercial real estate owners, investors, and tenants. We provide office, industrial, retail, multi-unit and investment real estate services with Maine and New Hampshire's most comprehensive market intelligence. Services include strategic property leasing and sales advice and execution, property and facilities management, project management, investment management, valuation, appraisal, research, investment strategy, and consulting. Using a managed teamwork approach, we field a group of professionals to answer each client's specific and changing needs. Each of our team member's market knowledge is complemented by proprietary, in-house research databases and an organizational structure designed to harness the firm's collective expertise.

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 12/1/2018. 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 SF leased over a period of time minus space vacated during the same period.

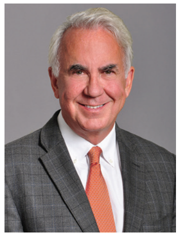
Rental rates outlined in this Survey reflect rates for direct lease availabilities. When a range of rental rates are available, the prevailing rate is reported. Only direct lease rates are quoted in cases when direct and sublease space is available. When only sublease space is available, no rate is quoted.

Definitions of Class A & B office buildings vary between markets. We define Class A office buildings as those that are investment-grade properties that feature 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.

MAINE BROKERAGE TEAM

Drew Sigfridson
SIOR, Managing Director



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