THE BOULOS COMPANY

2021 GREATER PORTLAND MARKET OUTLOOK

A MESSAGE FROM OUR MANAGING DIRECTOR

DREW SIGFRIDSON

SIOR, Managing Director and Partner

2021 Vision

In December 2019, as we were preparing our commercial real estate forecast for the year ahead, we never could have predicted 2020. As we look back on a year in which our country was under siege by COVID-19, we also endured unparalleled political tension and bitter partisanship, social unrest due to economic and racial inequities, and major upheaval from a global recession that directly impacted our governments, small and large businesses, and many of our friends and neighbors. We are all looking to 2021 with cautious optimism and a bit of trepidation.

For several years through March 2020, the commercial real estate industry experienced a period of tremendous growth, record low unemployment, economic expansion, rent appreciation in all sectors, and record low vacancy rates. In fact, the Greater Portland market had become incredibly tight and our team was nervous about a lack of available product for growing businesses and investors. This dynamic changed in the second quarter of 2020, as some companies immediately began to feel the effects of the pandemic and government-enforced shutdowns.

Some companies began to put space on the market for sublease or for sale, as remote working became more common. Industries were shuttered, and some businesses became unsustainable. Entire industry sectors experienced massive layoffs and revenue shortfalls—airlines, travel and tourism, aeronautical manufacturing, hospitality, brick-and-mortar retail, entertainment and restaurant venues, and more. And they continue to experience significant headwinds.

The State of Maine prides itself as "Vacationland" and tourism revenue is a major contributor to our economy. There will be more tough times ahead for many businesses, individual workers, and our local governments. Aid programs have been assisting many of the hard-hit, and we all hope that our favorite restaurants, breweries, entertainment venues, hotels, and resorts will have the staying power to make it through to the other side of this unprecedented pandemic.

The Silver Lining in the COVID Cloud

Amazingly, we saw some industries thrive, and even grow in 2020, while some continue to strategize growth plans looking ahead. Many businesses we work with are booming. They include companies in manufacturing, warehousing and distribution, construction services, building products, food and beverage wholesale and retail, and consumer goods.

Residential real estate is experiencing significant demand and a year of record sales, average price per home increases, and new construction starts. The demand is surging due to a low interest rate environment and an influx of people from places like New York, Boston, Washington, DC, and California. When you can work from home and live anywhere, who wouldn't want to live in Maine, with its close proximity to Boston; Portland International Jetport, Amtrak Downeaster, and Concord Trailways to access points farther afield; and a fiber infrastructure that's improving each year; not to mention easy access to mountains, lakes, beaches and forests.

The recent trend in residential growth will lead to improved commercial activity over time. The remote workers flooding Maine will invest here, start companies here, and provide a skilled workforce for our own growing companies.

More good news in 2020 came in the form of an investment in our schools and universities. The Alfond Foundation announced $500 MM in grants to high-performing institutions throughout the state. One of the grant recipients, The Roux Institute at Northeastern University, commenced operations in Portland in 2020, focusing on graduate degrees in "experiential" artificial intelligence technologies. Other recipients include the University of New England, which is building a new, $70 MM school of medicine in Portland, and FocusMaine, a private venture aimed at growing life sciences, agriculture, and aqua-culture development in Maine.

Despite the difficulties of the pandemic, our industries and workforce in the State of Maine are resilient, creative, and will persevere through these difficult times. On a personal note, I am so proud of our entire team at The Boulos Companies. Our people never lost a step in serving our clients and working hard for them each and every day. Hard work and perseverance only make us stronger, and we're ready for 2021. Let's hope that it will be a better year on all fronts.

Sincerely,

Drew Sigfridson, SIOR

COVER PHOTOS: *Anthony Di Biase*

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OFFICE MARKET OVERVIEW

NATE STEVENS

Broker, Partner

It should be no surprise to anyone that the Greater Portland office market was affected by the pandemic in 2020. When The Boulos Company began our annual market survey of 12 million square feet across 350 Class A and Class B office buildings, we didn't know what to expect. It was obvious that demand had dropped and supply was increasing at a steady rate since June, but we were surprised by the results. The total direct vacancy rate, not including sublease space, increased from 6.34% up only to 6.97% in 2020, still a very healthy rate considering the circumstances and still lower than any time from 2008-2016.

Different submarkets fared better than others 2020, but many in the industry expected worse. As expected, the amount of sublease space on the market increased dramatically from just 40,000± SF in 2019 up to 212,276± SF in 2020. While this may seem like it would have a major effect on the overall market, the total vacancy rate, including sublease space, increased to 8.70% from 6.66% in 2019. For reference, total vacancy rates from 2008 until 2015 never dipped below 9%.

While the strength of the downtown Portland submarket kept the overall vacancy rate from climbing too high in 2019, the opposite occurred in 2020. The downtown market was hit the hardest compared with all other submarkets as the total direct rate jumped from just 4.14% up to 9.92% over the course of 12 months. Once spaces offered for sublease are included, the overall vacancy rate is 11.77%. While the majority of sublease space is in Class A office buildings, this increase in the direct rate was not concentrated to a single property type and included both Class A and Class B buildings. Specifically, Class A downtown office space increased from a historic low of 0.40% in 2019, with only a few small vacant spaces, up to 6.60% in 2020 and included significant vacancies of 60,000± SF at 300 Fore Street and multiple vacancies over 10,000± SF elsewhere. Class B office space increased from 7.72% up to 13.32% due to multiple vacancies in the range of 2,500-7,500± SF and 38,000± SF of vacancy at 29 Commercial Street. These are dramatic increases in a very short amount of time. While these figures are similar to 2014 and 2015, this is the single largest increase over a 12 month period that The Boulos Company has recorded over the 23 years of surveying the market.

Despite the drop in transaction volume and demand in 2020, the number of significant transactions increased downtown as opportunities became available which included Certify leasing 53,656± SF at 320 Cumberland Avenue, 20,000± SF leased by Roux Institute at Northeastern University at 1 Hancock Street, Marcum LLP leasing 14,212± SF at One Canal Plaza, and ESRI leasing 10,308± SF at 75 Washington Avenue.

New construction took a hit and a couple new construction projects that were in lease negotiations were stalled in 2020. The one exception was the new 100,000± SF Sunlife building at Portland Foreside. Besides this one transaction, which was completed before the pandemic hit, it could be 12-24 months before any new leases are signed to spur significant ground up development, depending on how the market rebounds from the sharp increase in downtown vacancy rates.

It is evident the downtown market suffered over the last 12 months but surprisingly the suburban submarkets, which includes Class A and Class B buildings in Suburban Portland, Maine Mall Area, Westbrook, South Portland/Scarborough, and Falmouth/Cumberland/Yarmouth, had an overall decrease in vacancy rates from 8.75% in 2019 to 6.29%. Last year the amount of vacant space more than doubled; however, in 2020 only one market had an increase in the vacancy rate out of the 10 suburban submarkets and this increase was minimal. The major increase to the direct rate from 2018-2019 was largely due to just a few significant vacancies hitting the market, and 2020 remained largely unchanged. One of the drivers for the increase in rates in 2019 was UNUM downsizing and vacating 200,000± SF at 2211 Congress Street however BerryDunn signed a lease for 40,000± SF in this building. BerryDunn's relocation from downtown Portland, and was of the drivers in the drop of overall vacancy rates.

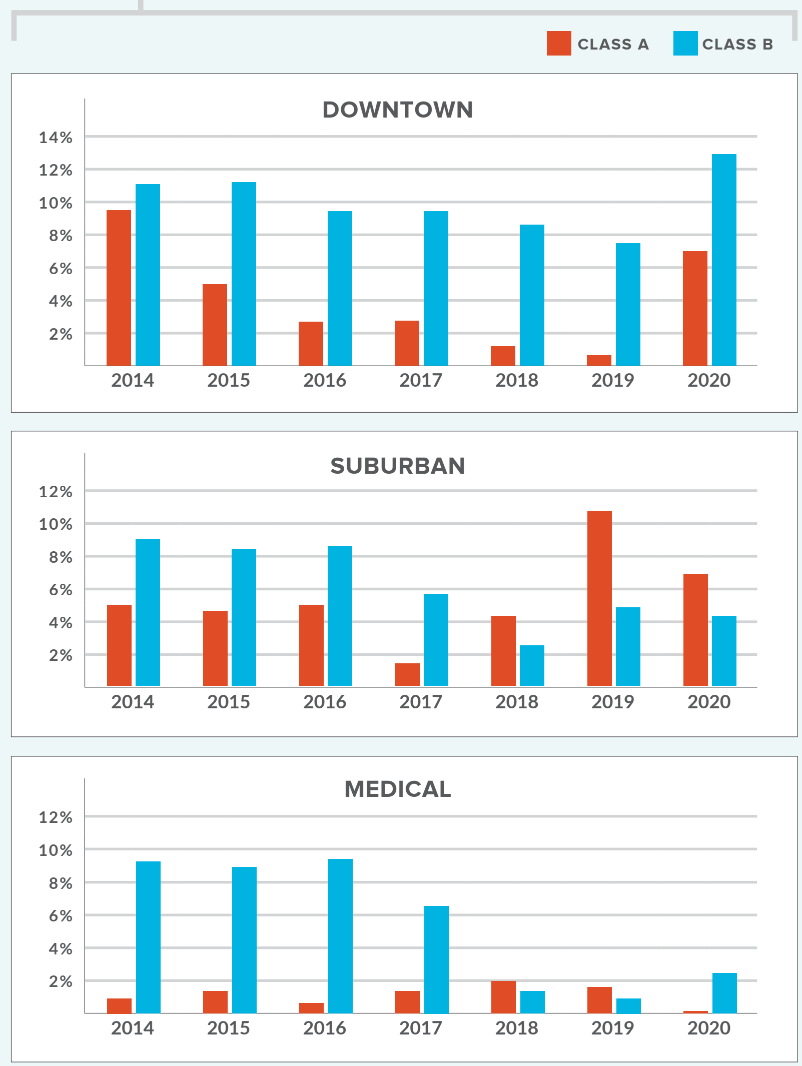
Medical Office

The medical office market continued to be very strong in 2020 with little evidence the pandemic had an effect on vacancy rates. This is a trend that has continued for the last 7 years as the Class A and Class B vacancy rate fell to 0.52% with just two small vacancies at the time of our survey. Maine Medical Center is undergoing two major expansion projects at the Portland and Scarborough campuses, otherwise larger medical office users did not make any major moves in 2020. Currently under construction is the 62,000± SF VA Maine outpatient clinic on West Commercial Street in Portland which will be added to the market in 2021. While demand for medical office space fell slightly with the overall office market, smaller private practices continue to struggle to find existing medical office space and are forced to convert standard office space or pursue new construction, both at a significant expense. Medical occupiers had to make quick, temporary changes to their facilities once the pandemic hit and it is yet to be seen how the pandemic will affect large-scale medical office space in the years to come. It is expected that the same medical office functions will require more space which may result in expansions and new construction supporting another strong year for this market in 2021.

Landlords and tenants alike in the office market want to know what the future of office space will look like and how that may affect occupancy rates in the future. It might be too early to tell and the big question is whether demand will return when office occupiers can plan better in their space programming. Almost half the lease transactions in 2020 were renewals indicating tenants preferred to stay put in 2020 which may lead to more movement within the market in 2021. It is unlikely physical offices will be affected like they will be in larger metropolitan cities and there will be a return of employees to the office in Greater Portland.

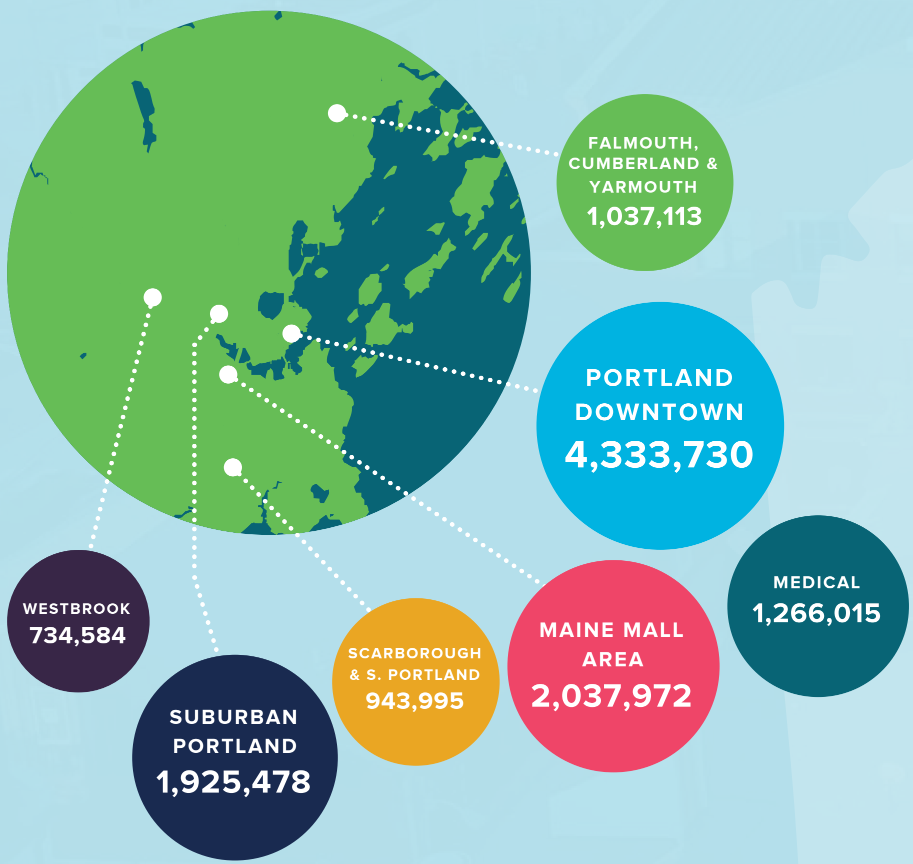
However, the downtown market can unlikely absorb the 270,000± SF of additional vacancy created last year when the market has only absorbed about 40,000± SF per year on average over the past three years. The downtown rates will go down but not back to 2017-2019 levels, at least within the next 12 months. In addition, there do not appear to be any major vacancies on the horizon in the suburban market and the large amount of sublease space doesn't hit the direct market in 2021 so, without any surprises, we can expect suburban rates to remain steady, perhaps improve slightly. In all, we can expect a little more stability in the office market in 2021 and hopefully, fewer surprises.

VACANCY RATES



2020 VACANCY RATE SUMMARY

SUBMARKET SIZE



ABSORPTION

12.1.2020 Total SF Occupied

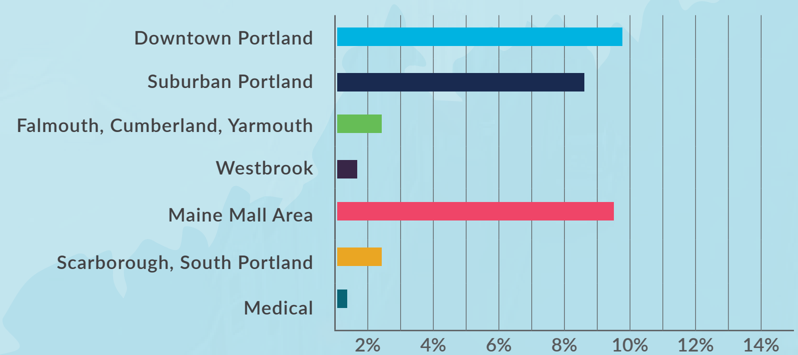
12,278,887

12.1.2019 Total SF Occupied

12,176,948

101,939
Since 2019

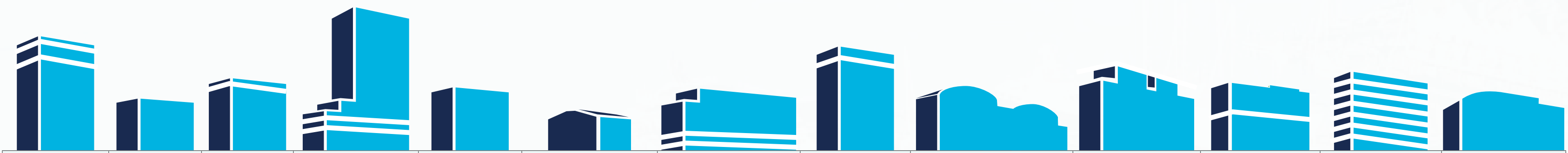
2020 TOTAL VACANCY RATES



All data represented as of December 1, 2020.

LOCATION	CLASSIFICATION	TOTAL RENTABLE 2020	AVAILABLE SF 2019	VACANCY RATE 2019	AVAILABLE SF 2020	VACANCY RATE 2020	SUBLEASE 2020
DOWNTOWN PORTLAND	Class A	2,195,126	8,500	0.40%	144,893	6.60%	60,911
	Class B	2,138,604	169,976	7.72%	284,900	13.32%	19,323
	Subtotal	4,333,730	178,476	4.14%	429,793	9.92%	80,234
SUBURBAN PORTLAND	Class A	993,164	172,180	17.31%	97,421	9.81%	-
	Class B	932,314	71,790	7.70%	69,639	7.47%	3,620
	Subtotal	1,925,478	243,970	12.66%	167,060	8.68%	3,620
FALMOUTH, CUMBERLAND, YARMOUTH	Class A	799,074	61,626	7.09%	10,398	1.30%	-
	Class B	238,039	16,222	6.71%	15,602	6.55%	-
	Subtotal	1,037,113	77,848	7.01%	26,000	2.51%	-
WESTBROOK	Class A	521,923	-	0.00%	-	0.00%	-
	Class B	212,661	2,000	0.94%	11,000	5.17%	-
	Subtotal	734,584	2,000	0.34%	11,000	1.50%	-
MAINE MALL AREA	Class A	1,652,682	206,773	12.58%	179,637	10.87%	119,755
	Class B	385,290	15,251	3.96%	14,869	3.86%	-
	Subtotal	2,037,972	222,024	10.94%	194,506	9.54%	119,755
SCARBOROUGH, SOUTH PORTLAND	Class A	417,731	25,161	6.59%	21,299	5.10%	-
	Class B	526,264	4,000	0.76%	-	0.00%	-
	Subtotal	943,995	29,161	3.22%	21,299	2.26%	-
ALL SUBURBAN MARKETS	Class A Suburban Total	4,384,574	465,740	10.90%	308,755	7.04%	-
	Class B Suburban Total	2,294,568	109,263	4.76%	111,110	4.84%	-
	Subtotal	6,679,142	575,003	8.75%	419,865	6.29%	-
MEDICAL	Class A	992,925	15,857	1.60%	-	0.00%	8,667
	Class B	273,090	2,567	0.85%	6,572	2.41%	-
	Subtotal	1,266,015	18,424	1.42%	6,572	0.52%	8,667
Class A Downtown, Suburban & Medical		7,572,625	490,097	6.64%	453,648	5.99%	189,333
Class B Downtown, Suburban & Medical		4,706,262	281,806	5.87%	402,582	8.55%	22,943
Total Office Space and Vacancy - Direct Lease		12,278,887	771,903	6.34%	856,230	6.97%	-
SUBLEASE SPACE		-	39,489	0.32%	212,276	1.73%	-
TOTALS		12,278,887	811,392	6.66%	1,068,506	8.70%	-

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	100 FORE STREET	280 FORE STREET	300 FORE STREET	1 HANCOCK STREET
BUILDING SF	129,780	44,273	64,495	202,754	26,753	30,400	95,000	128,400	49,600	84,000	69,481	61,129	97,528
AVAILABLE SF	5,458	-	5,982	4,931	-	-	2,773	5,183	-	-	-	61,129	-
PRICE/SF MG	$27.00	-	$27.00	$23.50	-	-	$24.50	$25.50	-	-	-	-	-
OCCUPANCY	95.79%	100%	90.74%	97.57%	100%	100%	97.08%	95.96%	100%	100%	100%	0%	100%
SUBLEASE	-	-	-	-	-	-	-	-	-	-	7,383	-	-
FLOORS	10	4	6	13	5	3	5	9	5	7	5	6	4
BUILT	1970	1972	1980	1984	1985	2000	1900	1974	2000	2020	2004	2007	2018

54 MARGINAL WAY	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
50,989	34,000	102,804	42,152	106,149	99,600	32,000	114,400	119,442	32,000	46,767	186,230	145,000	**2,195,126**
-	-	-	-	-	2,711	-	9,373	12,793	-	10,500	24,060	-	**144,893**
-	-	-	-	-	$28.00	-	$23.00	$23.50	-	$25.50	$28.00	-	
100%	100%	100%	100%	100%	97.28%	100%	91.81%	92.20%	100%	77.55%	87.08%	100%	**93.4%**
-	-	-	-	38,367	2,490	-	12,671	-	-	-	-	-	**60,911**
5	4	10	5	7	7	4	10	9	3	4	10	7	
2002	2007	2008	2017	1986	1986	1981	1973	1980	1989	1971	1987	1990	

OFFICE TRENDS: LOOKING FORWARD

JOHN FINEGAN
Associate

COVID-19 has had an enormous impact on the way each of us work and live and an attendant effect on the office market. Landlords and tenants have been forced to navigate these uncertainties as best they can. In this article, we note some of the best practices for officing during the pandemic, review the market situation, and look at emerging trends that may guide the year ahead.

CDC guidelines for safely welcoming employees back to the office include social distancing, which is best achieved when employees have their own office and can shut the door. Over the past decade the trend has been away from private offices, and many companies have made them obsolete. The furniture industry has quickly jumped on the opportunity to sell new products, like demountable walls, privacy partitions, and anti-microbial surfaces. Phasing employees in on specific days is a tactic being used by many companies, as well as schools, where social distancing cannot be otherwise achieved.

HVAC systems are an important consideration for tenants and landlords. Forced-air HVAC systems that are designed to treat a single tenant's space have proven far more effective at reducing the spread of COVID-19 and other pathogens than systems that share the air through multiple offices. It is also important that these systems include above-standard air filtration (MERV-12 filters or higher, as long as airflow is not impeded), bring in enough outside air to meet ASHRAE standards and local codes, have good air distribution within each room, and use bipolar ionization.

HVAC systems that use bipolar ionization are becoming the gold standard since the FDC confirmed that these solutions kill COVID-19 in the air and can be installed for roughly $1,000 for a 2,000± SF space. This is something new that landlords may be asked to fund for tenants, and may be key to attracting tenants in the future.

Renewals

As Nate Stevens mentioned in his overview, the amount of vacant office space increased from 811,392± SF to 1,068,506± SF in the past year, It will continue to increase as leases expire and office tenants opt to reduce their footprint rather than continue paying rent for space that they don't use. The decrease in demand and increase in supply has shifted the negotiating leverage in favor of tenants, and landlords are becoming amicable to concession packages. While larger tenants still have limited options, many smaller tenants are seeking short-term renewals in an effort to "ride out the storm" and make a long-term decision once the future is clearer. Landlords are inclined to accommodate these short-term extension requests because their alternatives are unclear as well.

Subleasing

Some office tenants with term left on their lease are offering a portion of their space for sublease to mitigate costs while some or all of their workforce is working from home. As Nate mentioned, in 2019, the amount of sublease space available in Greater Portland was 39,489± SF. That number has climbed to 212,276± SF, a 535% increase in the last 12 months. This increase includes 38,367± SF at 100 Middle Street offered by accounting firm, BerryDunn, who are relocating to the suburbs. It also includes 104,752± SF at 2 Gannett Drive in South Portland, which is being offered by Anthem, along with several smaller sublease opportunities ranging from 2,000± SF to 13,000± SF.

In addition, many tenants have notified their landlords that if a tenant came along and wanted to lease their space, they would happily do it, although their spaces are not formally listed for sublease. This "gray space" is expected to become a significant factor for transactions in 2021. The 212,276± SF of space currently listed for sublease is only the amount being advertised. We believe the actual amount of gray space to be much higher.

Rental Price Adjustments

So far, the Greater Portland office market has seen little decrease in rental price as a result of the pandemic. However, transactions are down and landlords are deciding whether it is worth marketing space at a discount, devaluing their asset for several years in order to avoid what might be a relatively short period of vacancy. Some may let their space sit vacant and absorb short-term costs of vacancy and/or provide elevated concession packages, such as free rent to secure tenants, rather than repeat the rent cuts we saw in 2008 and 2009, partially because they view this as a short-term blip, not a shift in economic fundamentals.

Office 2021

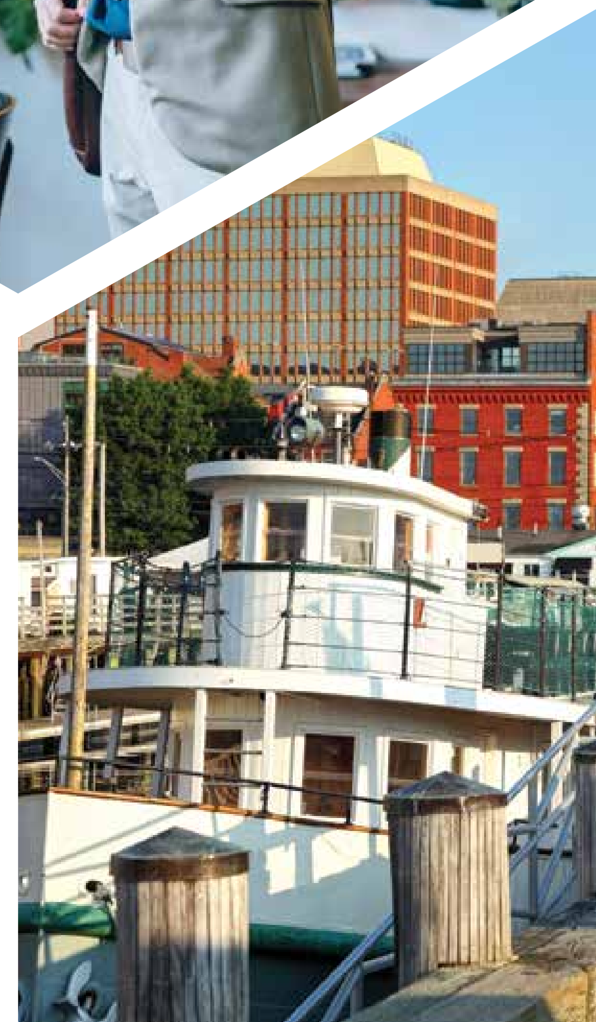
Our recent COVID Office Impact Survey found that 71% of participants were working from home either full- or part-time, but only 49% felt it was an effective solution. Employees are getting "Zoom fatigue," having ergonomic issues, communication problems, and technology issues. While working in pajamas may have seemed ideal at first, the lack of social interaction and easy collaboration is becoming more problematic as the months go on, reinforcing the need and desire for physical office space. Companies are motivated to bring employees back for a number of reasons—productivity, culture, collaboration, mentorship, and I believe we'll likely see a return to the pre-pandemic usage of office space when it is safe to do so.

In a separate COVID-driven trend, Maine has seen a massive boom in the housing market, as people from major metropolitan areas flocked here to take advantage of the relatively low incidence of infection in the state and work remotely. Post-pandemic, will some of these newcomers turn into new office tenants? Will they bring new jobs with them? Coworking spaces could see an uptick in demand if companies, headquartered in other states, provide a budget to help satellite employees.

SCAN THE QR CODE TO DOWNLOAD OUR COVID OFFICE IMPACT SURVEY

www.boulos.com/covid-impact

2021 will be a year of continued change in the office sector. Where there is change, there is opportunity. We predict that landlords who can adapt and respond to the changing needs of tenants will be successful. In addition, the potential for significant amounts of space coming available could offer the type of opportunity that encourages new and growing businesses to add staff and ramp up to the next level. Exciting times—stay tuned.



CAPITAL MARKETS OVERVIEW

CHRIS PASZYC
CCIM, SIOR, Partner, Broker

In last year's Market Outlook, I said there was a growing consensus that the commercial real estate market had peaked in the cycle and was experiencing a deceleration. However, indicators pointed to a soft landing and it looked like we might stave off a recession. Little did we know the pandemic was lurking, just around the corner.

In order to evaluate and forecast our capital markets outlook, we need to consider the global events of 2020, dominated by the coronavirus and the presidential election.

Between December 2019 and March 2020, news outlets began to report on the outbreak of the novel coronavirus, COVID-19, which originated in Wuhan, China and quickly spread throughout the world. On March 2, 2020, Governor Mills convened a coronavirus response team, and by March 24, she ordered all non-essential businesses in Maine to close their physical locations, a shutdown that lasted through the end of May. From face masks, social distancing, and diligent disinfection to companies embracing work-from-home strategies, folks seemed to get used to the "new normal."

As we head into 2021, COVID-fatigue has set in and infection rates are surging again. However, there is reason for optimism. Operation Warp Speed began distributing approved vaccines to priority groups in December 2020. The conventional wisdom is most adults will have access to a vaccine as early as springtime.

In the meantime, we have elected a new president, but there is no decisive answer on which political party will control the senate, as of this writing. We will not know the answer until early January 2021. Depending on which party holds power, we will see either a continuation or changes to trade policy, taxation, discretionary spending, housing, education, healthcare, and government regulation—all of which will impact commercial real estate.

President-elect Biden's 10-year plan calls for $5.4 trillion of additional spending. Expanded health care coverage could drive demand for medical office space. Increased spending for infrastructure and R&D could drive demand for office, industrial and logistics real estate. Federal housing policy changes will create opportunities for residential real estate developers. However, if the popular 1031 tax-free exchange program is eliminated, this will negatively impact the demand for investment real estate.

Analyzing CBRE's US Capital Markets publication through Q3 of 2020, we saw that total capital markets investment volume in 2020 was less than half of pre-pandemic averages since 2015. However, investment activity has been steadily improving since the reopening of the economy. Some key points include:

- Hotel sector had the largest year-over-year decrease in investment volume, followed by retail.
- Multi-family had the smallest decrease in investment volume.
- Cap rates were stable during 2020. However, cap rates are less meaningful than usual given the limited number of transactions compared to pre-COVID levels. This is attributed to a disconnect between buyer and seller pricing expectations.
- According to CBRE's Cap Rate Survey for 2020, 61% of buyers are seeking discounts while only 9% of sellers are willing to offer them.
- Interest rates have remained at all-time lows during 2020, which has spurred increased refinancing activity. Low rates are expected to continue in 2021. However, given the uncertainty over rental income from some asset classes, not all deals are finding acceptable capital.
- To date, distressed sales have been very limited.
- Most sectors experienced negative price appreciation, with industrial being the only sector with higher appreciation. Price appreciation will rebound in 2021, assuming the influence of COVID is behind us and interest rates remain low, and the 1031 exchange remains in place.
- Investor liquidity remains high.
- Construction pricing remains high with no reductions in sight.

PHOTOS: *600 Sable Oaks, South Portland; 442 Civic Center Drive, Augusta; 11 & 12 Lund Road, Saco; 5 Bradley Drive, Westbrook; 2 & 4 Shape Drive, Kennebunk.*

Given the savory ingredients of abundant liquidity, low cost of capital, wider yield spreads and rebounding asset value appreciation, we expect the appetite, among investors, to acquire more commercial real estate to return to the insatiable pre-COVID levels in 2021, albeit with some sectors faring better than others.

Local Trends:

Traditionally, Maine has been a stable market, somewhat resistant to the volatility the rest of the country experiences. Provided employment statistics return to pre-COVID normal, and capital is available, we expect increased demand for investment property statewide in 2021. While interest rates have decreased over 2020, cap rates were essentially unchanged in most markets and sectors. Industrial and multifamily buildings continue to trade in the lowest cap rate range.

While we saw a period during the early days of COVID where lenders paused, long-term fixed debt and historically low rates have been available during Q3 and Q4 of 2020. There continues to be a steady mix of out-of-state capital and local buyers demanding product throughout the State of Maine. We have also seen a high level of interest in mixed retail-industrial properties that we expect to continue post-COVID.

The Boulos Company facilitated more than $191 million in transactions on behalf of clients in 2020. Over $102.5 million of that volume represents investment transactions. The (industrial) sector, alone, accounted for 50% of the total sale transactions volume at over $51.3 million.

In conclusion, there will be more availability of investment product in 2021 than this past year to satisfy demand. After we muddle through a turbulent first quarter, we expect robust activity in the second quarter of 2021 onwards, as we put the pandemic and the election behind us, and investors capitalize on late-cycle market dynamics. The Boulos Company looks forward to working with you to develop and execute your real estate strategy in 2021.

2020 CAPITAL MARKETS TRANSACTIONS

STREET NAME	CITY	SALE PRICE	SIZE (SF)	CAP RATE (%)	TYPE
5 Bradley Drive	Westbrook	$22,750,000	126,072	5.95%	Industrial
600 Sable Oaks Drive	South Portland	$18,100,000	97,376	6.70%	Office
5 Bradley Drive	Westbrook	$8,750,000	126,072	N/A	Industrial
442 Civic Center Drive	Augusta	$8,700,000	57,383	8.10%	Office
11 & 12 Lund Road	Saco	$5,850,000	42,704	7.40%	Industrial
2 & 4 Shape Drive	Kennebunk	$5,200,000	23,492	N/A	Office
15-35 Starrett Drive	Belfast	$5,025,000	31,480	N/A	Retail
33 Stone Street	Augusta	$1,625,000	14,200	N/A	Office
249 Main Street	Lewiston	$1,300,000	9,923	N/A	Office
76 Darling Avenue	South Portland	$1,100,000	10,654	N/A	Industrial

National Trends (sources include CBRE Capital Markets, Real Capital Analytics, NREI Research News, Bank of America/Merrill Lynch and NorthMarq Capital, Deloitte, Price Waterhouse Cooper, Mortgage Bankers Association, RICS Commercial Property Monitor)

EDUCATIONAL IMPACTS: $500MM FOR MAINE

BRICE O'CONNOR
Associate Broker

$500 Million for Maine: The Harold Alfond Foundation Makes the Largest Financial Pledge in its History

Philanthropist Harold Alfond believed that education was key to building a stronger Maine future. He endowed the Harold Alfond Foundation to make transformative investments in the areas of education, health care, and youth and community development, in an effort to strengthen Maine's community and economy.

In October, the Harold Alfond Foundation pledged $500 million in grants to help grow the state's workforce and economy. The grants will be awarded to innovative institutions in education, workforce training, technology, science, and job creation. They include the University of Maine System, The Roux Institute at Northeastern University, the University of New England, Thomas College, Colby College, FocusMaine, Waterville Creates!, and Jackson Laboratory.

The University of Maine System will receive $240 million to support transformative change to the state's largest university system. Areas of focus will be a multi-university College of Engineering Computing and Information Science; programs to support student success and retention, including research learning opportunities; and a pathways-to-career program. Additionally, USM will be constructing new state-of-the-art student facilities on its Portland Campus, and UMaine will be constructing new athletic facilities.

The Roux Institute at Northeastern University will receive $100 million in support of student scholarships, graduate education programming, and research capabilities for Maine residents. The Roux Institute is focused on building a Portland-based hub in the digital and life science sectors.

Colby College will receive $101 million toward its economic revitalization projects in downtown Waterville and a state-of-the-art athletics and recreation center.

The University of New England will receive $30 million in support of constructing a new facility on its Portland campus for its College of Osteopathic Medicine, which is relocating from the Biddeford campus. UNE also plans to establish a new Institute for Interprofessional Education and Practice, and support high-growth undergraduate and graduate programs.

Thomas College will receive $13.5 million. The college is home to the Harold Alfond Institute for Business Innovation, whose mission is to strengthen academic and employer-community partnerships. Thomas College will also add new academic programs in leading-edge fields aimed at improving student retention.

Also receiving Alfond Foundation grants are **FocusMaine**, which is committed to job creation in the life science, agriculture, and aquaculture sectors; **Waterville Creates!**, supporting the revitalization of downtown Waterville with the goal of attracting people to Central Maine; and **The Jackson Laboratory,** focusing on cancer research and patient care.

In a press release, President of the Maine State Chamber of Commerce Dana Connors stated, "The Harold Alfond Foundation strategically selected these programs, each of which expands access to higher education and builds a pipeline of talent in key areas well-poised for economic growth in Maine, such as biotech, engineering, healthcare and IT."

As we look to the future of Maine's economy and its supporting workforce, the Harold Alfond Foundation's pledge helps to highlight the efforts being made to build the foundation for a better tomorrow. These investments and enhancements to Maine colleges, universities, and supporting organizations position us to keep future generations of Mainers in Maine, while attracting new talent from around the world. What better place to cultivate the skilled workforce needed for Maine's economy than right here in Maine, making it the ultimate place to live, *learn*, work, and play for generations to come.

PORTLAND'S MOMENTUM: ANIMAL SCIENCE, AI AND TASTING MENUS

TONY MCDONALD
CCIM, SIOR, Partner, Broker

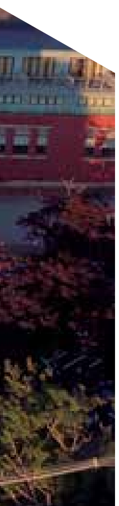
Thanks to COVID-19, a gold-rush mentality has developed around residential properties in Maine. People from away are fleeing to our state, with its relatively low incidence of infection, not to mention fewer crowds and wide open spaces. Many people have discovered that they can work very well from home, and they're thinking, Why not live someplace nice?

Increasingly, we are seeing international firms establish a presence here, including a large cluster related to animal sciences—IDEXX, with its veterinary technology products and services, and ImmuCell, serving the beef and dairy industries. Putney, a homegrown veterinary pharmaceutical-based firm, was purchased by Britain's Dechra Pharmaceuticals, which now has a Portland office. Covetrus, another veterinary pharmaceutical firm has a new headquarters under construction in Portland's fast-growing Eastern Waterfront. Animal-related startups, such as Rarebreed Veterinary Partners, are being attracted to this internationally significant and growing cluster.

The Roux Institute at Northeastern University is now open for business in Portland, offering research capabilities and graduate education in artificial intelligence, computer and data sciences, digital engineering, and advanced life sciences and medicine. These tech industry trends are the building blocks of the new economy.

Northeastern is well-known for its experiential approach to learning and its ability to produce graduates that go on to successful careers. It bodes well for Portland, and all of Maine, as Roux graduates take the lead in these exciting new technologies. The institute—envisioned and funded with a $100 million lead gift by David Roux and his wife Barbara—is operating in temporary facilities while it works toward establishing a permanent campus.

Adding animal sciences and technology to Portland's well-established disability insurance and reinsurance clusters, begins to round out a robust economy. Add a nationally acclaimed foodie and vibrant arts and music scenes, on the edge of a beautiful bay, and you have a dynamic combination. As the country comes out of the COVID-induced downturn, it appears very unlikely that things will ever return to the old normal. Portland may just be poised to become the next world-class tech center and all-around cool spot, up there with Austin and Palo Alto. Creative, funky, with no dearth of tasting menus, it is the perfect city for tomorrow's visionaries and entrepreneurs.



PHOTOS: *Christopher Stephenson*

CANNABIS & COMMERCIAL REAL ESTATE

NOAH STEBBINS
Associate

Like it or not, the marijuana industry has arrived. In Maine all signs point to growth, slowly but surely. Marijuana policy has been changing rapidly across state lines in recent years. Currently, there are 17 states, including the District of Columbia, that have passed legislation legalizing the sale of marijuana. However, pushback from landlords, zoning/setback requirements, and local ordinances have made it challenging for retail marijuana companies to find adequate space.

Although the sale of recreational marijuana was legalized in Maine in 2016, no stores opened for business until this year. As I write this article, there are only eight recreational dispensaries located in Maine, in Bangor, Damariscotta, Newry, Northport, South Portland, Stratton, and Waterville. Portland, the state's largest city, has delayed issuing licenses as local government officials continue to navigate the process.

A Much-Needed Tax Boost and Job Growth

In early October, the first weekend of recreational marijuana sales, Mainers spent over $250,000, which generated roughly $25,000 in sales tax. As marijuana becomes more mainstream and municipalities begin to loosen restrictions to enter the market—as Portland is trying to do— recreational marijuana sales could have a significant impact on Maine's economy. A study conducted by New Frontier Data found that national legalization of marijuana in the United States could result in $128.8 billion in tax revenue, along with an estimated 1.6 million new jobs.

Nationally, the cannabis industry employs nearly 250,000 people.

With unemployment rates reaching unprecedented highs and traditional retailers unable to pay rent or vacating their spaces altogether, Maine's marijuana industry represents an excellent source of alternative tax revenue and will also create jobs and help fill vacant space at premium lease rates.

A Zoning Primer for SoPo and Portland

In Greater Portland and throughout the state, the legal marijuana industry has had to wait years, but it's proved to be resilient, despite restrictive ordinances and even a COVID-induced recession. New stores will be opening in Maine in the coming months, and as the industry continues to adapt, it could be a bright spot in the state's commercial real estate landscape.

If you are thinking of investing in this sector, here are some ordinance requirements to consider.

In South Portland, recreational marijuana establishments are required to meet local land use approval and obtain local licensing. All marijuana-related establishments require site plan review and approval from the planning board prior to the issuance of any building permit or certificate of occupancy.

Recreational marijuana dispensaries are permitted in the following South Portland zones:

- General Commercial District (CG)
- Professional Office District (PO)
- Central and Regional Commercial District (CCR)
- Transitional Central & Regional Commercial District (CCRT)

Dispensaries must be located 1,000 feet from schools and 300 feet from childcare facilities, community centers, higher educational facilities, large public outdoor recreational facilities, churches, synagogues, and other houses of religious worship. It is also important to note, South Portland has an odor management policy, security requirements, and the distance between stores must be 300 feet.

In October of 2020, the Portland City Council was forced to remove a point matrix from the city's marijuana ordinance, as a federal judge deemed it unconstitutional. The point matrix system scored marijuana businesses on a 34-point scale that opponents argued gave some businesses an unfair advantage. Recently, Portland residents also voted

to remove the cap on the number of stores and reduce the distance between dispensaries from 250 feet to 100 feet.

Portland is currently in the process of drafting ordinances to govern recreational marijuana dispensaries. These include being located within 500 feet of a preexisting public school, private school, or a public preschool program. Dispensaries are currently permitted in the following zones:

Business Community (B-2)
Downtown Business (B-3/B-3-b/B-3c)
Commercial Business (B-4)
Urban Commercial Business (B-7).

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PHOTOS: *Jeff W/unsplash; Add Weed/unsplash*

NEIGHBORHOOD SPOTLIGHT: OUTER FOREST

SAMANTHA MARINKO
Associate

The Forest Avenue Corridor is on Fire

Once a hub for gas stations and automobile service centers, the Forest Avenue corridor has become a heavily-trafficked gateway to downtown Portland, home to restaurants, retailers, nonprofits, and more. Off-peninsula neighborhoods, such as Forest Avenue, have become a draw for businesses seeking relief from expensive downtown rents. For at least a decade, Forest Avenue and Woodford's Corner have been hosting office tenants in affordable spaces and retailers have found the reasonable lease rates both appealing and more sustainable. Nonprofits, for whom making the best use of resources is vital, are finding the area particularly attractive.

This summer, The United Way of Greater Portland moved from a Class A office tower in downtown Portland into 10,600 SF at 550 Forest Avenue, also known as the Sanborn Building. The logic for a nonprofit is indisputable; costs were significantly cut, while access to downtown remains extraordinarily easy (the move was barely two miles from their former office). Other nonprofits that call Forest Avenue home include The Center for Grieving Children, The Portland Recovery Community Center, Wishrock Group, Maine Needs, and Gateway Community Services.

Many retailers have also found that a Forest Avenue presence makes sense, either instead of or in addition to their downtown space. Blake Orchard Juicery, with its original location on Exchange Street in the Old Port, opened a second location at 561 Forest Avenue. Maiz Columbian Street Food, formerly in the Public Market House on Monument Square, now resides at 621 Forest Avenue. Tipo Restaurant, just a half mile from Woodfords Corner on Ocean Avenue, was opened by the owners of downtown hot spot, Central Provisions, in response to complaints from CP regulars about the difficulties of downtown dining. New educational facilities are also changing the complexion of the Forest Avenue corridor. The University of New England announced that it would be moving the College of Osteopathic Medicine from its current Biddeford location to a new 110,000 SF facility on the Portland campus, as part of a five year plan. Additional plan components include a new athletics building, a new facilities building, a new academic building, a new residence hall, the conversion of the existing gymnasium to an academic building, and the redevelopment of a church into office space. The Portland campus already serves as home to University of New England's College of Dental Medicine, the College of Pharmacy, and the Westbrook College of Health Professions.

UNE isn't the only college expanding along the Forest Avenue corridor. The University of Southern Maine also has big plans. USM is spending $100 million to construct new student housing for 550 upperclassmen and grad students and a new, 60,000 SF career center. Future plans include a new graduate center for professional studies, a performing and fine arts center, and additional parking facilities to support the new projects and housing. The master plan submitted in January of 2019 also leaves room for future academic, housing, parking and/or athletic growth, further suggesting that the Forest Avenue corridor will continue to see new coffee shops, chic eateries, and hip boutiques due to the demand from the influx of students.

In this dynamic time for real estate, Forest Avenue and the surrounding neighborhoods continue to grow as new businesses see the benefits of making this area their home base. Given the projects underway and in the pipeline, the area will continue to evolve and thrive.

PHOTO: *Corey Templeton*


Hopeful
SPEEDWELL
Henry Wolyniec
Relief

HOTEL FORECAST: INSIGHTS FROM DEVELOPERS

GREG BOULOS

Partner, Broker

CHRISTOPHER STEPHENSON

Vice President of Operations and Marketing

As we have all witnessed, Portland has seen an enormous increase in hotel development over the past ten years, tracking the city's growing reputation as a must-visit travel destination. Portland's vibrant working waterfront, uniquely charming neighborhoods, and the burgeoning craft beer and restaurant scenes have been written up in top-10 tourist destination articles in numerous magazines and travel blogs, and featured by travel influencers all over Instagram. Portland was even named Bon Appetit's Restaurant City of the Year in 2018. This exponential rise in recognition has led to a corresponding uptick in tourists flocking to Portland in the summer months, with total visitation increasing 10.4% from 2015 to 2019 and a total of 37,373,463 total visitors in 2019, as per information from the Maine Office of Tourism.

The increase in tourism had an impact on Portland's commercial real estate community. From 2017 to 2019, Maine saw an additional 803 hotel rooms built, with another 297 slated for opening by the end of 2021 (as per MEREDA's 2020 Vacation & Hospitality Forecast).

While the hotel community had every reason to expect this steady rise in tourism to continue, the hospitality industry was one of the hardest hit by COVID-19, in markets across the country. While there have been fluctuations in the strictness of travel restrictions, it's not as simple to book a trip as it was a year ago, and hotels continue to suffer.

At The Boulos Company, we have the benefit of fantastic relationships with developers in Maine's hospitality industry, and many of them have been featured on our podcast, The Boulos Beat. In an effort to update our audience with first-hand insights, we reached out to a few for their thoughts on where the hotel industry is headed.

Hotel Developers: Nate DeLois, *Uncommon Hospitality;* **Marc Dugas,** *Dugas Development;* **Dan Flaherty,** *The Olympia Companies.*

"My gut says 2023," said Marc Dugas when asked: **How long do you think it will take Maine's hotel occupancy rates to return to pre-pandemic levels?** "There are too many outstanding variables to make a strong prediction, but my gut says 2023, given the slower return of group and corporate demand. In Portland, specifically, it could take longer given the fact that the market will also need to absorb the additional supply coming in spring/ summer 2021, with Canopy, Aloft, and Cambria Suites hotels. Another big question is whether Portland cooked its golden goose by increasing minimum wages to the point of limiting the restaurant and bar scene, which has traditionally been a primary draw for leisure travelers."

DeLois had a slightly more aggressive estimate, noting that it's largely dependent on a vaccine and future travel restrictions: "Based on stronger than expected occupancies from August through October in 2020, I expect monthly occupancy rates to be within 90% of 2019 figures during those same months in 2021. If Maine isn't all the way back by 2022, it will be by a small margin. Properties that offer cottages or cabins will likely be the strongest performers." Flaherty predicts three years until pre-pandemic occupancy.

"Hotels that have a leisure focus tend to be doing better than hotels with corporate or group focus," remarked Flaherty when asked: **How are Maine and Portland hotels doing compared to the national market?** "Maine and Portland hotels that cater to the leisure segment did relatively well during the late summer and into the fall, as we are a 'drive to' leisure destination." Dugas agreed, noting that Maine outperformed the Boston and NYC hotel markets considerably as a drive-to destination with low reliance on group demand. “Maine as a whole is well positioned to come out of the current crisis faster, given its lower reliance on group and corporate transient business.” Though he remarked that the entire industry is feeling the effect of lowered levels of leisure travel.

“The Francis, on Congress Street, was well ahead of the Maine and national occupancy rates from August through October, posting a three-month 70% occupancy rate while national rates remained in the 40s. Not so good compared to 2019’s occupancy rate, but still far better than the national 2020 COVID occupancy,” said DeLois. “Compared to national occupancy rates, Maine lagged behind in May and June due to state travel restrictions, caught up in July, and then outpaced the national occupancy rate by 31% in August (63% Maine compared to 48% US).”

“I remain very enthusiastic about the future of Maine hospitality, especially Portland hospitality, which was just starting to blossom as a vacation destination,” offered DeLois when asked: **How has COVID changed your plans for future hospitality development?** Flaherty remarked that he’ll be on hold with ground-up developments for the next 24 months, in favor of distressed properties that are beginning to pop up on the market. “Construction prices haven’t gone down in relation to revenue and average daily rates need time to ramp back up for underwriting metrics to work.”

Dugas and DeLois agreed leisure markets remain a good place to focus for hospitality development: “We are still moving forward with The Longfellow Hotel development on Congress Street…Historically, Maine hotels have outperformed the rest of the country in terms of rate of recovery during and after a recession, and all signs are pointing to that repeating itself with the COVID recession.” DeLois also noted that “drive-to” markets and leisure markets are slated to recover faster than others, saying “Maine is both. In 2019, 81% of Maine visitors traveled here by car and 92% were traveling for leisure. Additionally, Maine is viewed as a relatively safe place to be, as evidenced by the booming residential market and comments from our guests, so **even if COVID is still in the picture to some extent heading into the summer 2021 season, Maine will be a highly sought after destination for travelers.”**

PHOTO RENDERING: *Koucar Management, LLC*

RETAIL ON WHEELS: THE VALUE OF DRIVE-THRUS

JOSEPH ITALIAANDER
Associate

2020 has been an unprecedented year in every way, shape, and form. In just nine months, the COVID-19 pandemic has structurally impacted the world in ways that could not have been imagined a year ago, and commercial real estate is no exception to shifting trends.

The retail sector has been the subject of widespread concern, and there are some questions as to what this asset class might look like post-vaccine. Temporary adjustments and trends that evolved as a result of the pandemic could very well end up being permanent tactics for sheer survival.

In my observation, no trend has been more important than the increased utilization and new additions of drive-thru lanes. What was once a simple component for your run-of-the-mill fast-food establishment has now become a necessity for some of the country's most notable brands, including: Chipotle, Starbucks and Walgreens.

Back in 2019, Chipotle announced the opening of its 100th ChipotLane, a drive-thru concept launched in 2018. It allows Chipotle's customers to get their food via online order/pickup without having to leave the comfort of their vehicle. Fast-forward to present day: Chipotle is now experimenting with the Chipotle Digital Kitchen in select markets. This concept foregoes the option of customer dining and only features the Chipotlane and in-store pickup via online orders.

The same goes for Starbucks. I frequent the free-standing drive-thru location on Forest Avenue in Portland, and while they remain open for walk-in customers, it is simply a ghost town inside. As a result, the drive-thru is almost always at capacity (or over capacity), often with cars overflowing onto the street. On the flip side, Starbucks' Exchange Street location in downtown Portland, which doesn't have drive-thru access, is a great place to get a quick coffee or a bite to eat and is rarely subject to longer wait times. Going forward, Starbucks is looking for ways to add drive-thrus to existing stores, and will only seek new locations that meet this criteria.

Chipotle and Starbucks are just two examples of businesses that have come to rely on their drive-thru lanes. But they are not the only ones who can benefit from providing ease of access to customers. Banks and financial institutions are taking things a step further, as they are finding one drive-thru lane is not enough. The new prototype for banks like Camden National Bank will feature at least two teller lanes, plus an ATM drive-thru.

Best Buy is another retailer that has shown signs of strength and innovation throughout the pandemic. They have been leaders among the big box stores in the 'curbside pickup' category—customers place their orders online and they're ready for pickup minutes later. You can now find dozens of Best Buy employees filling orders and running products to customers waiting in cars at their pickup lanes.

What started as a change out of necessity, I predict will become a long-term staple of retail based on convenience. Similar to the rise of e-commerce, consumers want to buy their goods in a manner that is most convenient for them, and for many goods that means not leaving their car.

If this trend is any indication of the future of retail, then I believe we will begin to see increased demand and higher pricing for shopping center outparcels and pad sites, where developers can have the flexibility of building to suit the changing needs of a variety of businesses—bank/financial institutions, fast-food (and other) restaurants, and pharmacies such as Walgreens and CVS. No doubt this trend and the adjustments necessary will require substantial investment, above and beyond the typical retail build. However, I believe that the need to provide drive-thru service and other post-pandemic amenities will be crucial to not only thrive but to simply survive.

PHOTOS: *99Films/unsplash; Micheile Henderson/unsplash*


ORDER

RESTAURANT TRENDS

DEREK MILLER
Associate Broker

Across the country, the restaurant industry has been one of the hardest hit by the COVID-19 pandemic, and Portland is no exception. Many local restaurants have fortified outdoor dining areas for the winter, some have pivoted with new takeout and delivery menus, some have pressed pause on their operations, and some have closed. This article will take a closer look at the implications for the commercial real estate industry that supports Portland's nationally-acclaimed restaurant scene, and what tenants and landlords can expect as we move into 2021.

As of December 2020, there were approximately 20 retail locations available for lease or sale in Portland that were either previous restaurants (with equipment) or would be well-suited for restaurant use. They comprise over 56,000 SF in downtown Portland alone, although not all are vacant or available immediately. This amount of negative absorption in Portland is unprecedented. While we do not track year-over-year absorption statistics in the retail space as we do the office market, I can confidently say this is the biggest YOY change on record. (This time last year, a retail space in a good location that was already built out for a restaurant was rare and would have generated great interest, because a full commercial kitchen build-out can cost anywhere from $150,000 to $500,000.)

Pandemic-inspired Trends Emerge

I am happy to report that there are other emerging trends that point to the resilience of the local restaurant market. Outdoor dining was essential to keeping many restaurants in business during the early months of the pandemic. Now that temperatures have dropped, restaurants still operating in parking spaces or partially closed streets have added heaters and tents to keep guests comfortable and erected Jersey barriers, with the help of the city, to allow plows to safely clear snow. Some are even more creative—adding futuristic, igloo-like and other semi-permanent structures that can provide more enclosed seating for smaller groups.

In another popular trend, some very well-established restaurant operators have pivoted to new menus and takeout offerings, with Hugo's and Central Provisions leading the charge. In November, Big Tree Hospitality (which owns Hugo's, Eventide Oyster Co., and Honey Paw) opened XO Burgers and Wings, a takeout and delivery concept operating out of Hugo's kitchen. Central Provisions, now going by Central Sandwich & Provisions, has pivoted to a new concept for the winter. They have converted their space to a storefront selling spice mixes, oil, vinegars, wine, as well as cocktails to go, and an impressive array of sandwiches (including a hearty and delicious breakfast option), soups, and salads. These pivots are exciting and impressive in their creativity, and it's likely we will see more in early 2021 as restaurants continue to explore new revenue streams.

Another new trend that saw tremendous growth in 2020 is the ghost kitchen. This emerging restaurant model involves multiple "restaurants" (sometimes owned by the same company), offering takeout menus from a shared kitchen space. Also known as virtual restaurants, they are allowing established brands and chefs to conduct business through the pandemic when they otherwise might have had to close or never launch. Ghost kitchens can also serve as an incubator for new concepts and chefs just getting started.

Karen Nason, owner of Ghost: Karen's Kitchens in the former School Street Pub & Grill in Gorham is offering six digital restaurants from one kitchen, with separate menus for pizza, burgers, Thai food, soup, Mediterranean, and sushi. The owners of 64 Pine Street in Portland, the former home of Blue Spoon Café, are hoping to attract operators that want to collaborate on a ghost kitchen space. This is a trend to watch-market research firm Euromonitor estimates that ghost kitchens could be a $1 trillion business by 2030.

Looking Ahead

The fundamentals that previously made Portland one of the hottest restaurant scenes in the country remain, but it will take some time to recover from all the damage wrought by the pandemic. Filling the market's vacant retail spaces will take time and patience on behalf of landlords. More space is sure to come to market as we move through a challenging winter, adding to the already crowded inventory list referenced above. I predict vacancy levels will remain high through 2021 and start normalizing as we move into 2022.

Well-located retail spaces with existing furniture, fixtures, and equipment will likely be the first to be leased by new and established operators. Tenants can reasonably expect healthy improvement allowances and/or free rent periods from landlords looking to be the first to fill their vacant suites. As always, there will be a flight to quality as existing businesses that weathered the storm look to upgrade facilities and/or location during the once-in-a-lifetime opportunity provided by COVID-19. I have every confidence that Portland's vibrant cultural scene will ultimately support a full bounce-back of retail and restaurants, and it will be stronger than ever in the years to come.

PHOTO: *Anthony Di Biase*

HOW COVID-19 IS TRANSFORMING WORKPLACES IN MAINE

JESSICA ESTES
Partner, Designated Broker

While some of the changes we experienced in our lives due to COVID-19 were new and unexpected (wearing masks to the grocery store), much of what happened in the workplace was an acceleration of trends already underway. COVID-19 forced our collective hands, and pushed our companies to adopt new technologies, work styles, and ideas in order to survive. Necessity is the mother of invention, and in the current crisis it has led to a rapid response.

Office

Between 2005 and 2018 remote work in the US increased 173%, eventually accounting for 25% of the total workforce, according to McKinsey research. Then COVID hit, and a staggering 62% of folks began working from home. While 80% of those surveyed reported they enjoy working from home, the long-term impacts of this trend are unknown. Working from home is certainly preferable during a pandemic, but a conventional workplace provides greater opportunities for collaboration and mentorship, space for training, and is key to recruitment efforts. In addition, productivity is a factor. A recent survey by The Boulos Company found that while 44% of respondents felt as productive working from home as they do in the office, 34% felt less productive, while 22% felt more productive. Lack of IT resources, increased distractions, and lack of collaboration and communication were all cited as factors impacting productivity in home offices.

In Maine, 2020 saw a gradual return to the workplace, at least on a part-time basis, and most large companies are keeping their workforce remote for the time being. However, 40% of our survey respondents' companies planned to have over 40% of their staff back in the office by Q2 2021, and 38% planned to be fully back in the office by Q3 2021. Most of the 52% of respondents who answered "Other" said that bringing employees back would depend on the state of the pandemic and when employees feel comfortable and safe.

As noted in Nate Stevens' summary article, the shift to working from home has already impacted vacancy rates in the Portland area, but the vast majority of companies are not planning to give up their office space or reduce their footprint in the near term. According to our survey, only 14% plan to increase or decrease their office footprint due to COVID-19 concerns, which bodes well for the office outlook.

One factor that has insulated our market from the dire occupancy situation seen in larger cities, such as Boston and New York, is our lack of public transportation. Companies whose workers rely on subways, buses, and trains to get to work must take those factors into consideration when weighing whether or not to open their offices.

Industrial

The explosive growth of the marijuana and brewing sectors has had a demonstrable impact on our industrial market in Maine, decreasing vacancy rates and increasing lease rates and sale prices across the board. COVID-19 added to the strong demand, with companies such as Abbott Laboratories adding over 250,000± SF of occupied space to their portfolio.

The local outlook is very similar to the national outlook in the industrial market. We will continue to see high demand and low supply for the foreseeable future. Rent growth means market rates often support new construction, and new supply is now being added to satisfy pent-up demand.

Retail

Store fronts with "For Lease" signs in Portland's Old Port were a rare sight for the better part of the last decade, but they began appearing in late 2020. Our nationally-recognized restaurant industry has perhaps taken the greatest hit. But once again, our local entrepreneurs are proving resilient, shifting their business models, and new restaurants are opening at a healthy clip. While we

mourn the loss of some of our favorite haunts, the shift toward outdoor dining, closing streets during the summer months, and utilizing parking spaces will hopefully survive the pandemic and create a more vibrant downtown in the long-term.

Bright spots in the retail landscape include grocery, home improvement and discounters. Gyms and apparel stores have suffered, along with restaurants, but these sectors are expected to rebound in late 2021.

The full impact of COVID on Maine's commercial real estate market remains to be seen, and continued softening is expected over the next 12–18 months. On the plus side, we hadn't overbuilt in the previous upswing, so there isn't a large swath of new supply to be absorbed. Another potential upside, a significant number of working-age adults have moved to Maine since the start of the pandemic, and it will be exciting to see what they add to the business landscape in our state. While many are working from home for the time being, it's not unrealistic to think they may eventually join our local companies, adding to our workforce, or start their own ventures one day.

PHOTOS: *Manny Pantoja/unsplash; Anthony Di Biase*

LEWISTON-AUBURN MARKET OVERVIEW

NOAH STEBBINS
Associate

In recent years, Lewiston-Auburn has benefited from numerous development projects, and investors continue to remain bullish on downtown and surrounding areas. Although 2020 has been a challenging year for most, Lewiston-Auburn has remained a popular market for developers and businesses alike, and there is a lot to be excited about in 2021.

Housing

The shortage of housing in the Lewiston-Auburn market has led to several new housing development projects over the past few years, and more are in the planning stages. The Szanton Company completed construction of the mixed-use Hartley Block at 155 Lisbon Street in 2019, with 4,000± SF of retail space on the first floor and 63 apartment units on the upper floors. In 2020, Szanton focused their efforts in Auburn, completing a 53-unit apartment building at 48 Hampshire Street in May of 2020.

Do not expect to see a slow down in new housing developments in 2021. Recently, Lewiston city officials announced a "transformational plan" toward the redevelopment of multiple public housing sites focused on the Tree Streets neighborhood, and the City of Auburn is selling lots at 186 Main Street and Anniversary Park, with major incentives approved to encourage future development.

Industrial

In Lewiston, as in other parts of the state, industrial properties are in high demand as supply remains low. Furthermore, with construction costs at an all-time high, new development and adaptive reuse projects have become a necessity due to a historic low vacancy rate. One example of adaptive reuse is the transformation of the former Flagship Cinema at Lewiston's Promenade Mall into an 83,000± SF warehouse facility, which was recently leased to NEPW Logistics. In response to industrial demand, there are plans to build an additional 64,800± SF building at the Promenade Mall and another 48,000± SF building on Gendron Drive in Lewiston.

Office/Healthcare

Not all commercial real estate sectors have been as fortunate as industrial. The office sector, which was hit hard by the pandemic, is seeing several large vacancies in Lewiston-Auburn. Notably, the Liberty Mutual building at 1775 Lisbon Street in Lewiston has 71,000± SF available, the Lewiston Fair Grounds on Mollison Way has 52,000± SF available, 500 Canal Street in Lewiston has 27,817± SF available, L.L. Bean recently pulled out of the Peck Building in Lewiston, vacating 47,585± SF of Class A office space, and TD Bank is only occupying half of their 169,000± SF space at the Bates Mill. On the bright side, Grand Rounds, a San Francisco based healthcare company, built out a new 46,900± SF office space in the Bates Mill, while maintaining their existing space and expanding their workforce.

Also on the healthcare front, Central Maine Healthcare has broken ground on their new $38 million cancer center in Lewiston. According to CEO Jeff Brockman, the 52,000± SF building "brings together comprehensive cutting edge oncology care, from diagnosis to treatment, in one consolidated facility that allows for coordinated care in a way that we've never been able to provide before." In March of 2020, Central Maine Healthcare also opened a new urgent care center at 685 Sabattus Street across from the Hannaford. The two-story building will employ around 20 people and, according to Mainebiz, "will offer diagnosis and treatment of minor illnesses, minor injury repair and treatment, some imaging services, labs and diagnostics, and sports physicals." More urgent care facilities are in the works, but details have not been released.

Retail

The Lewiston-Auburn retail sector continues to evolve and adapt, even in the face of COVID. In 2019, Maine's last Kmart store shuttered its door in Auburn at 603 Center Street, leaving yet another massive retail vacancy. Fortunately, Target recently announced it would be opening a new 105,000± SF store at the location, which leaves the Sears at the Lewiston Mall, the last remaining big box retail store on the market in LA. Other notable retailers entering the market this year include The Holy Donut at 848 Minot Avenue in Auburn and Chipotle at 410 Center Street in Auburn, both of which have pandemic-friendly drive-thrus—a trend that Joe noted in his article.

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INDUSTRIAL MARKET UPDATE

JON RIZZO
Broker

The 2020 overview of Maine's industrial market looks a lot like 2019's—strong tenant demand, lack of supply, and an incredibly sought-after investment market. But there is one notable difference. Demand increased even more in 2020, due to COVID-19.

Before diving into the Greater Portland market, let's look at the industrial sector on a national level, as many of the fundamentals in the overall U.S. market hold true for Maine. Much of the demand for industrial properties in 2019 was e-commerce-driven. This trend is likely to continue, as consumers have embraced online shopping during the pandemic, and with COVID-19 continuing to be a factor through the first half of the year.

According to CBRE Research, "$1 billion in incremental e-commerce sales generates 1.25 million sq. ft. of warehouse space demand." So the increase in e-commerce sales will naturally lead to an increase in demand, and with vacancy rates being so low, new construction is inevitable. New construction typically yields a higher lease rate, which trickles down to higher lease rates for second and third generation inventory as well. The increase in overall lease rates strengthens the landlord market but hasn't seemed to slow tenant demand.

Are speculative projects on the horizon? The consensus answer is "yes" as, according to CBRE Research, there was strong pre-leasing of speculative development in Q3 of 2020. On a macro level, this trend in new construction and demand for more industrial space does not seem to be slowing down in 2021 and is, in fact, projected to increase. The question becomes when do we hit the lease rate tipping point for tenants, given developers' yield expectations and corresponding construction costs and ultimate deal terms (length of term, tenant improvement allowance, lease rate, etc.).

How does this relate to the market here in Greater Portland? Let's look at the numbers.

We are currently experiencing a vacancy rate that is approximately 2.5%. With nearly 20 million square feet of inventory, this translates to 500,000± SF. There is a significant vacancy at 203 Read Street in Portland (167,000± SF) that represents approximately 33% of the available vacant space. According to the listing brokers at NAI The Dunham Group, they are in negotiations with tenants to lease roughly 150,000± SF in that building. If you take 203 Read Street entirely out of the equation, the vacancy rate drops down to 1.7%. Clearly, we are experiencing an extremely tight market.

In Scarborough, 65% of the light industrial lots in Phase 1 and Phase 2 at the Innovation District at The Downs are under contract or sold, with a few buildings already constructed and occupied. Several others are under construction, breaking ground, or planned and likely to be completed by spring/summer 2021. This type of activity has taken place within 16 months of the official ground breaking at the Innovation District. Many of the end-users had been considering existing inventory, but the lack of quality product and higher asking prices for existing buildings has led to new construction.

Not All About Lack of Supply

Of course lack of supply plays a role in new construction for end-users/tenants. However, it is also about building specifications and what can or can not be met with an existing building and potential fit-up. Tenants are seeking higher quality assets—newer product, greater clear height, more efficient column spacing, better trailer access (docks, overhead doors, parking, turnaround, etc.), and location. And they're willing to pay a premium for these specifications. When a property with A+ characteristics hits the market, it draws attention from any and all tenants in that market, and does not stay listed for long. Larger scale assets of this type also draw attention from the capital markets (typically 50K square feet and greater with investment grade tenants).

Looking Forward

So what do we see happening in 2021? The vacancy rate will hover in the same range that we've seen the last two years—between 2% and 3%. There are a




PHOTOS: *35-41 Diamond Street, Portland, ME; 7 Rand Road, Portland, ME; 55 Logistics Drive, Auburn, ME; 10 Southgate Road, Scarborough, ME*

few larger buildings that are being marketed for build-to-suit projects and likely will not break ground without the majority of the building having a commitment from a tenant. Even if those projects were built on spec they would not be completed until Q4 2021 at the earliest, thus not affecting the vacancy rate for most of the year.

Consumer e-commerce demand will continue and likely increase during Q1 and Q2 of 2021 with the effects of COVID-19 still very much upon us. In order to keep up with this demand and increase efficiency, companies are going to need to streamline delivery to keep costs down and keep customer satisfaction high. This will increase demand for "final mile" distribution centers.

Consistent with the national outlook, the Greater Portland market has a lack of existing inventory, and this should continue to drive new construction and/or lead to adaptive reuse of existing buildings. Think retail to industrial. With traditional brick and mortar retail struggling, in particular big box retailers, we've seen adaptive reuse of these spaces as warehousing and distribution. Big box retail stores are typically located in densely populated areas—the ideal location for a final mile distribution center. The question becomes, does zoning allow for this type of use, and if not, can the ordinance be amended? This is a great reuse of a vacant/obsolete box store and municipalities should welcome this type of conversion.

Greater Portland's industrial sector is going to continue to grab attention from local and regional investors due to the fact that it has been largely unaffected by COVID-19 compared to sectors such as office and retail. With strong market fundamentals, we are seeing cap rates trending closer to those of larger markets, such as Boston and New York, but providing a spread that makes investing in Greater Portland more attractive than those markets.

2020 SIGNIFICANT SALE TRANSACTIONS

ADDRESS	SQ FT	PRICE PSF	CAP RATE
7 Rand Road, Portland	242,965	$53	N/A
203 Read Street, Portland	167,154	$60	N/A
11 & 12 Lund Road, Saco	42,704	$137	7.40%
10 Southgate Road, Scarborough	111,590	$70	N/A
7 Washington Avenue, Scarborough	60,000	$152	8.70%
5 Bradley Drive, Westbrook	126,072	$69	N/A
5 Bradley Drive, Westbrook	126,072	$180	5.95%

2020 SIGNIFICANT LEASE TRANSACTIONS

ADDRESS	TENANT	SQ FT	TYPE
5 Bradley Drive Westbrook	Abbott Diagnostics Scarborough, Inc.	126,072	New Deal
6 Lincoln Avenue Scarborough	Abbott Diagnostics Scarborough, Inc.	50,378	New Deal
95 Hutchins Drive Portland	Federal Express Corporation	33,973	Renewal
55 Logistics Drive Auburn	CEVA Logistics U.S., Inc.	47,000	New Deal
67 Target Industrial Circle Bangor	Granby Heating Products LLC	31,700	New Deal

AUGUSTA MARKET OVERVIEW

NICK LUCAS
Associate Broker

Augusta

The revitalization efforts in downtown Augusta had another successful year, with some key projects completed in 2020. There has been significant demand for quality, modern housing in Augusta over the last several years and one project in particular sufficed that demand. The Vickery Building, 261 Water Street, opened its doors in May. Located in the heart of downtown Augusta with sweeping views of the Kennebec River, the developer converted this old brick gem into 13 modern, upscale units that have the feel of New York luxury apartments. The units leased out instantly, an indication of the appetite for these types of units and that people want to live in downtown Augusta.

We anticipate this trend to continue on Water Street, as other potential redevelopment opportunities have hit the market. For example, the former Maine State Housing Authority building, 353 Water Street, hit the market in 2020, for sale or lease. This exciting 49,000± SF Class A office building with breathtaking water views could attract a new business to the market, or a mixed use project with office space and apartments, or a full apartment conversion, similar to the Vickery.

The former Housing Authority building hasn't been the only intriguing development opportunity to pop up in the market. The former Public Utilities Commission building recently sold at auction for $1.6 million. Known as the Hallowell House, this historic 28,000± SF building is well-positioned in downtown Hallowell and is ripe for redevelopment. It is likely we will see this used as office space for multiple tenants or become a mixed used project with office on a few floors and residential on others. The PUC has relocated to their new 22,700± SF office at 19 Katherine Drive in Hallowell.

The Maine State Housing Authority and Maine Veterans' Homes have also been on the move. MSHA has moved to their new, two-story, 79,126± SF office building at 26 Edison Drive in Augusta. Renovations were completed in the spring of 2020, and they were moved in by June. Maine Veterans' Homes is in the midst of construction on their brand new, $91 million, 138-bed residential facility, slated to open in 2021. The 179,000± SF, state-of-the-art facility is intended to feel more like a home and less institutional. It was constructed based on the "small home" model, the first facility of its kind in Maine.

Investment properties that sold include:

- 442 Civic Center Drive, Augusta, a 57,383± SF office building sold as an investment for $8,700,000. Building tenants include state and federal government offices, government contractors, and MaineGeneral Medical Center.
- 33 Stone Street, Augusta a 29-unit apartment building, which sold for $1,625,000.

Gardiner

Due to the tight industrial market, Gardiner saw an increase in land sales, as there was limited existing inventory available. The Libby Hill Business Park sold three lots in 2020, which will result in the construction of new industrial buildings. We anticipate more lots will be sold heading into 2021, which could result in an additional 50,000± SF of industrial space being constructed at Libby Hill.

Industrial land sites that sold include:

- Lots 8/9 at Libby Hill sold to Posillico Enterprise Partners, LLC, which plans on constructing a 6,000-10,000± SF industrial building.
- Lot 19 at Libby Hill sold to Preferred Pump, which plans on constructing a 10,000± SF industrial building.
- Coutts Brothers purchased 28 acres in West Gardiner on Route 126. They are currently in Randolph and purchased the land to be closer to I-95. They plan on constructing a 10,000± SF industrial building.

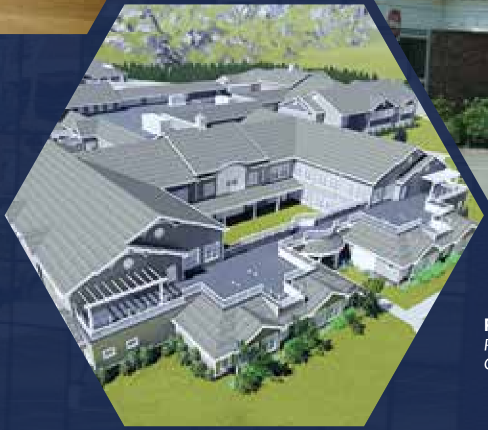
Waterville

Despite the pandemic, Colby College and Waterville continue to push forward with projects on Main Street. Colby will be renovating 18 Main Street, a 25,000± SF, $6.5 million project. The new Arts Collaborative aka the former Waterville Hardware Store, will be developed into an art studio/exhibition/event space.

In spring of 2021 construction will commence on Main Street to convert downtown Waterville back to two-way traffic, as it was before urban renewal. Along with the traffic flow redesign there will also be new sidewalks and other site improvements to downtown.

Colby College finalized construction on its 48,000± SF, $26 million Lockwood Hotel in 2020. The hotel was slated to open in the fall of 2020, however, due to the pandemic, the opening for the guests rooms has been pushed until summer of 2021. The restaurant, Front & Main, will open in February.

While Main Street in Waterville continues to boom, it should be noted that other areas of town have great development opportunities as well. The former Seton Hospital just hit the market as a redevelopment opportunity for multi-family. The project plans to show potential for 56-68 units, plus 35,000± SF of office and commercial space.



PHOTOS: *Maine Veterans' Homes Rendering; The Vickery; 442 Civic Center Drive.*

2019 INVESTMENT TRANSACTION HIGHLIGHTS

ADDRESS	SQ FT	SALE PRICE
33 Stone Street Augusta	14,200 ± SF Office Building	$1,625,000
442 Civic Center Drive, Augusta	57,383 ± SD Shopping Center	$8,700,000

ABOUT US

The Boulos Company is a commercial real estate firm dedicated to serving owners, investors, and tenants, blending Maine and New Hampshire market knowledge with a global network.

We offer a full array of services including leasing and sales; property, facilities, project, and investment management; valuation, appraisal, research, investment strategy, and consulting.

In addition to our depth of services, we also offer a deep bench of qualified, professional agents. Our partners and experienced brokers are seasoned experts in every commercial real estate sector, from office and retail to industrial, investment, and multi-unit property; and our systemized, in-depth training program ensures that their knowledge is shared with each new generation.

All of this reach, experience, expertise, and depth adds up to market leadership, and for clients, that means success. When it comes to New Hampshire and Maine commercial real estate opportunities, Boulos brings you more.

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 12/1/2020. 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. Subleased spaces that were occupied as of 12/1/2020 were not included as part of this Survey.

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.

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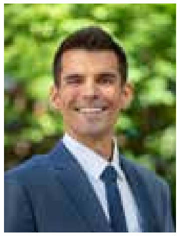

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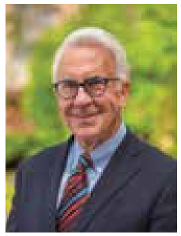

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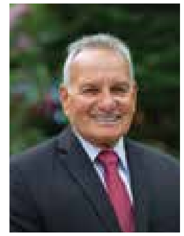

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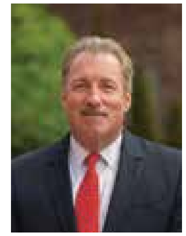

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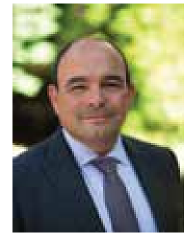

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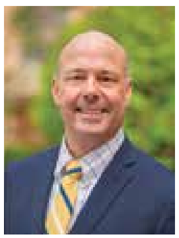

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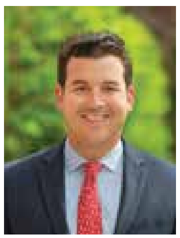

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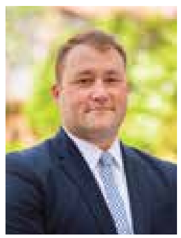

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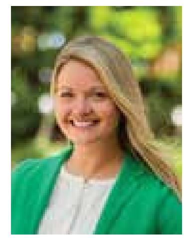

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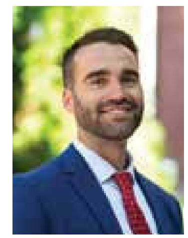

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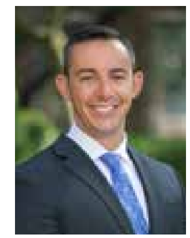

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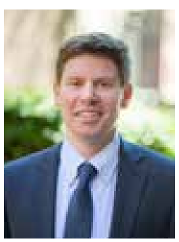

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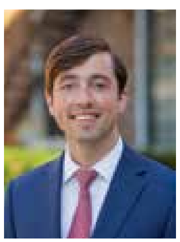

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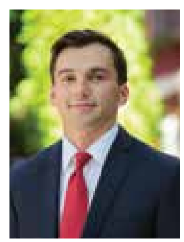

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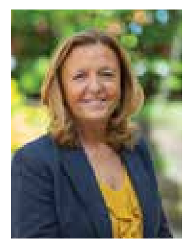

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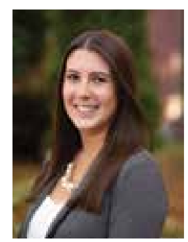

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