



OFFICE MARKET OUTLOOK

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One more year has come and gone since the pandemic began, and here at The Boulos Company, we're constantly evaluating its ongoing overall impact on the Greater Portland office market. The dust seems to have settled somewhat in terms of the pandemic-inspired shift in office requirements, and there is some stability now on that front for both tenants and landlords. However, we do not believe we've seen the final impact of the pandemic on the market, and it could be another year or two before we're out of the woods. Last year's office market survey was somewhat of a surprise when the overall direct vacancy rate fell. Still, the trends started to resemble past disruptions in the office market, including the financial crises in 2007–2008. This year's survey continued to display that trend. The amount of sublease space and "gray space" increased dramatically in 2021, and we wondered when and how badly this was going to affect the direct vacancy rates in 2022.

As a whole, the Greater Portland market remained strong over the last 12 months, with the direct overall vacancy rate decreasing to 6.38% in 2022. However, it's still lower than the 2020 vacancy rate of 6.97%. In addition, the amount of sublease space on the market remained relatively the same, a good sign, possibly indicating some stability for future direct vacancy rates. The combined total vacancy rate is 9.14%, the highest it has been in six years due to the historically high sublease rate. Overall, this is a healthy vacancy rate for Greater Portland, and the increase can be attributed to specific submarkets.

DOWNTOWN

Both the Class A and Class B vacancy rates fell for the second straight year, for a combined rate of just 6.41%, down from 9.92% in 2020. The 2022 vacancy rate isn't quite back to pre-pandemic levels, which were driven by historically low Class A rates. Still, the improvement in the market over 24 months is certainly a positive sign for the office market recovery on the Portland peninsula. The Class A rate has improved to 3.75%, down from 6.60% over the previous year, and this includes the addition of two significant buildings: 110 Thames Street, now occupied by Sunlife, and 12 Mountfort Street, leased by Covetrus. These two buildings alone added 210,000± SF to the market, both projects negotiated before 2020. The 100,000± SF of sublease space downtown is almost entirely attributed to the Class A market, and there is a significant amount of gray space in this market as well. This drop in the Class A market may be short-lived, depending on whether demand can keep up with new vacancies in 2023.

The Class B vacancy rate in 2022 is 9.48%, down from 13.32% in 2020. The improving Class B market can be attributed to the conversion of office space to residential/hospitality uses, as well as most Class B buildings being occupied by small to medium-sized tenants that are locally owned and controlled—a subset of office tenants that best weathered the pandemic. There is also considerable gray space in the Class B market, but that is likely to be offset from more significant building conversions over the next year.

SUBURBAN

In last year's survey, we noted that the suburban market, and two submarkets in particular, were slated for a possible increase in vacancies, given the amount of sublease space added in 2021 and the significant amount of grey space we anticipated. This prediction was unfortunately accurate, as the overall suburban vacancy rate increased to 7.59% from 6.67% the previous year. This may not seem like a significant jump, but the increase is attributed to just two submarkets, the Maine Mall area and the portion of Suburban Portland closest to the Maine Mall. In fact, 82% of suburban direct vacancies are all within two square miles of each other, concentrated along I-95 and around the Maine Mall. The 2022 Maine Mall area Class A vacancy rate is 16.22%—almost tripling from 2021 (5.83%) and the highest Class A suburban submarket vacancy rate since we've started publishing this annual market outlook. In addition, nearly all of the 218,000± SF of sublease space in the suburban markets is concentrated in the Maine Mall area. This is important to track as these subleases convert to direct vacancies, and it may be a few years before this submarket sees marked improvement.

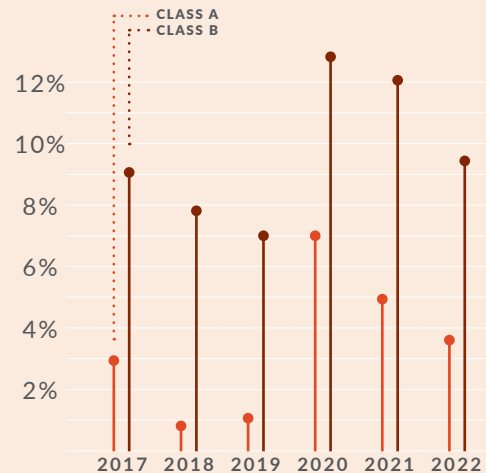
Other suburban submarkets, including Westbrook, Scarborough/South Portland, and Falmouth/Cumberland/Yarmouth, improved in 2022. However, they were overshadowed by the mall area, the largest of the suburban submarkets, which clearly drove the overall increase. With a lack of sublease space being offered or significant anticipated vacancies in the other suburban submarkets, we can expect similar vacancy rates in the near future.

MEDICAL

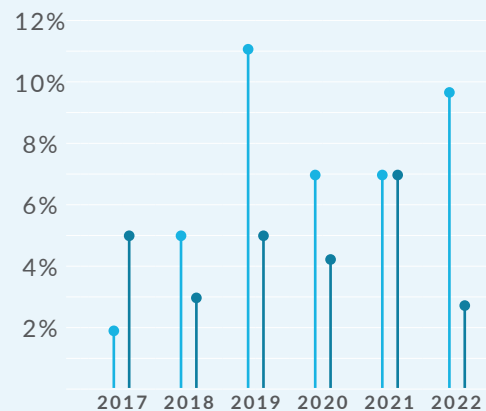
The medical office submarket continues to be the best-performing class in the Greater Portland area. The total vacancy rate is 0.80%—below 1% for the third consecutive year, with only two small vacancies out of 1,500,000± SF of medical office space on our survey. The total size of the submarket increased by 35,000± SF with construction completed on 113 W Commercial Street, the new home of the Veterans Affairs outpatient clinic. While landlords are considering converting from office buildings to medical office, the significant infrastructure needs of medical office buildings, in conjunction with increasing costs of construction, are making these conversions more difficult. The demand for medical office space is also expected to continue to grow. Unfortunately, we do not see much relief for medical office tenants in the near future, as vacancy rates are projected to remain low in Greater Portland.

FORECAST FOR 2023

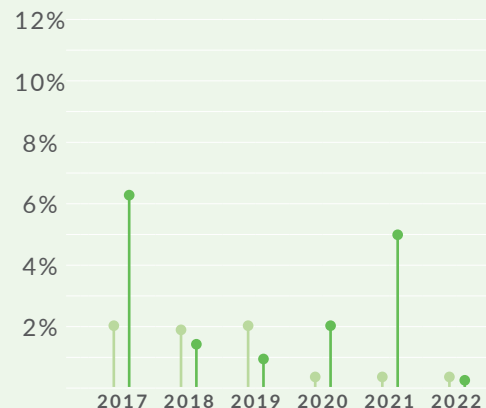
Predictions on the office market are somewhat more straightforward than they have been the last two years, as office occupiers have adapted to a new way of working and meeting their evolving needs. Similar to the financial crisis in 2007–2008, it may be another year or two before vacancy rates level off and demand begins to outpace supply once again. Over the next 12 months, there will continue to be a tale of two markets, as the downtown market remains relatively strong and the suburban market experiences above-average vacancy. With the amount of grey space downtown poised to hit the market in 2023, there very well could be an increase in the downtown Class A vacancy rates. At the same time, Class B will likely continue to improve as more office conversions come to completion. In the suburban markets, specifically the Maine Mall area, there may not be much help from the limited demand, as negative absorption is expected again in 2023. This also creates growing opportunities for office tenants in the market, and while the best opportunities depend on a tenant's size and location requirements, this should help create some demand in 2023.



DOWNTOWN VACANCY RATE



SUBURBAN VACANCY RATE



MEDICAL VACANCY RATE

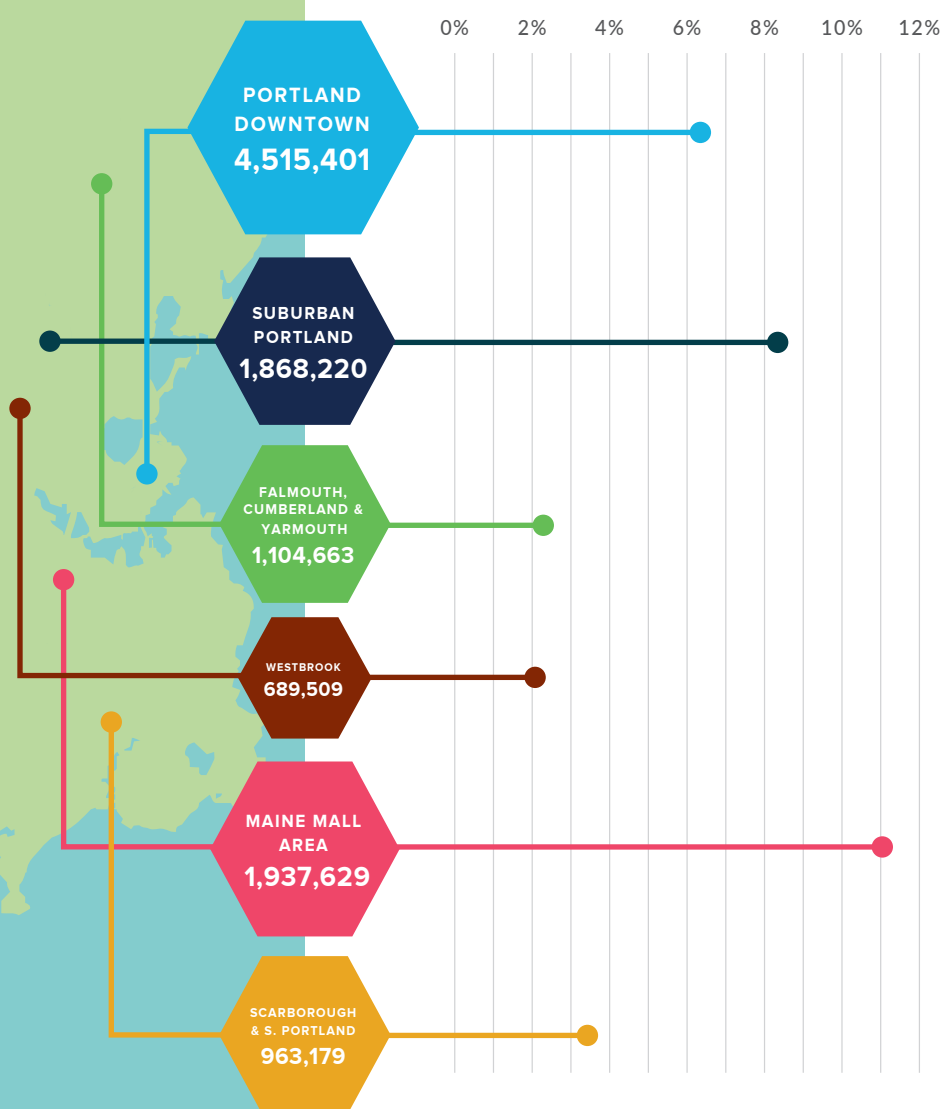
2022 VACANCY RATE SUMMARY

LOCATION	CLASSIFICATION	TOTAL RENTABLE 2022	AVAILABLE SF 2021	VACANCY RATE 2021	AVAILABLE SF 2022	VACANCY RATE 2022	SUBLEASE 2022
DOWNTOWN PORTLAND	CLASS A	2,416,327	109,447	5.02%	90,527	3.75%	110,911
	CLASS B	2,099,074	260,985	12.29%	199,075	9.48%	14,181
	SUBTOTAL	4,515,401	370,432	8.61%	289,602	6.41%	125,092
SUBURBAN PORTLAND	CLASS A	988,021	121,845	12.26%	131,756	13.34%	-
	CLASS B	880,199	72,947	7.82%	25,807	2.93%	-
	SUBTOTAL	1,868,220	194,792	10.11%	157,563	8.43%	-
FALMOUTH, CUMBERLAND, YARMOUTH	CLASS A	866,624	40,917	4.81%	13,737	1.59%	11,302
	CLASS B	238,039	13,658	5.74%	8,072	3.39%	1,500
	SUBTOTAL	1,104,663	54,575	5.01%	21,809	1.97%	12,802
WESTBROOK	CLASS A	544,923	5,700	1.05%	-	0.00%	-
	CLASS B	144,586	12,638	5.94%	3,300	2.28%	-
	SUBTOTAL	689,509	18,338	2.42%	3,300	0.48%	-
MAINE MALL AREA	CLASS A	1,612,339	96,296	5.83%	261,579	16.22%	207,569
	CLASS B	325,290	46,040	11.95%	20,000	6.15%	-
	SUBTOTAL	1,937,629	142,336	6.98%	281,579	14.53%	207,569
SCARBOROUGH, SOUTH PORTLAND	CLASS A	436,915	29,687	6.79%	29,662	6.79%	-
	CLASS B	526,264	11,808	2.24%	4,035	0.77%	-
	SUBTOTAL	963,179	41,495	4.31%	33,697	3.50%	-
ALL SUBURBAN MARKETS	CLASS A SUBURBAN TOTAL	4,448,822	294,445	6.57%	436,734	9.82%	218,871
	CLASS B SUBURBAN TOTAL	2,114,378	157,091	6.85%	61,214	2.90%	1,500
	SUBTOTAL	6,563,200	451,536	6.67%	497,948	7.59%	220,371
MEDICAL	CLASS A	1,175,566	1,650	0.15%	9,460	0.80%	-
	CLASS B	267,304	13,545	5.07%	2,066	0.77%	-
	SUBTOTAL	1,442,870	15,195	1.11%	11,526	0.80%	-
Class A Downtown, Suburban & Medical		8,040,715	405,542	5.22%	536,721	6.68%	329,782
Class B Downtown, Suburban & Medical		4,480,756	431,621	9.21%	262,355	5.86%	15,681
Total Office Space and Vacancy - Direct Lease		12,521,471	837,163	6.73%	799,076	6.38%	-
SUBLEASE SPACE		12,521,471	335,806	2.70%	345,463	2.76%	345,463
TOTALS		12,521,471	1,172,969	9.42%	1,144,539	9.14%	345,463

SUBMARKET SIZE

2022 TOTAL VACANCY RATES

TOTAL SQFT OCCUPIED



↑ **102,871^{SF}**
SINCE 2021

12.1.2021

11,274,061

12.1.2022

11,376,932

All data represented as of December 1, 2022.



Back Cove

295

Munjoy Hill

MARGINAL WAY

West Bayside

FRANKLIN STREET

CONGRESS STREET

Old Port

COMMERCIAL STREET

HIGH STREET

DOWNTOWN PORTLAND CLASS A SPACE AND ASKING RATES

		BUILDING SQ FT	AVAILABLE SQ FT	PRICE/ SF MG.	OCCUPANCY	SUBLEASE	FLOORS	BUILT
1	ONE CANAL PLAZA	116,424	1,738	\$28.50	98.51%	7,536	10	1970
2	TWO CANAL PLAZA	44,273	N/A	N/A	100%	N/A	4	1972
3	THREE CANAL PLAZA	64,495	855	\$28.50	98.67%	N/A	6	1980
4	ONE CITY CENTER	202,754	10,585	\$28.35	94.78%	N/A	13	1984
5	TWO CITY CENTER	26,753	4,129	\$19.95	84.57%	N/A	5	1985
6	68 COMMERCIAL STREET	18,691	9,677	\$36.00	48.23%	N/A	3	2000
7	145 COMMERCIAL STREET / 1 MARKET STREET	30,400	N/A	N/A	100 %	N/A	3	2000
8	254 COMMERCIAL STREET	95,000	2,502	\$24.00	97.37%	N/A	5	1900
9	511 CONGRESS STREET	128,400	11,000	\$24.00	91.43%	N/A	9	1974
10	7 CUSTOM HOUSE STREET	49,600	N/A	N/A	100 %	N/A	5	2000
11	110 THAMES STREET	90,000	N/A	N/A	100 %	N/A	4	2022
12	100 FORE STREET	80,000	N/A	\$36.61	100 %	15,458	7	2020
13	280 FORE STREET	69,481	N/A	N/A	100 %	N/A	5	2004
14	300 FORE STREET	61,129	N/A	N/A	100 %	N/A	6	2007
15	1 HANCOCK STREET	97,528	N/A	N/A	100 %	N/A	4	2019
16	54 MARGINAL WAY	50,989	N/A	N/A	100 %	N/A	5	2002
17	63 MARGINAL WAY	34,000	N/A	\$33.33	80.93%	6,483	4	2007
18	84 MARGINAL WAY	102,804	N/A	N/A	100 %	N/A	10	2008
19	16 MIDDLE STREET	42,152	N/A	N/A	100 %	N/A	5	2017
20	100 MIDDLE - EAST TOWER	106,149	4,780	\$26.00	97.28%	31,827	7	1986
21	100 MIDDLE - WEST TOWER	99,600	2,711	\$26.00	97.26%	N/A	7	1986
22	130 MIDDLE STREET	32,000	N/A	N/A	100 %	N/A	4	1981
23	12 MOUNTFORT STREET	129,866	N/A	\$39.00	100 %	49,607	6	2022
24	ONE MONUMENT SQUARE	114,400	4,544	\$24.50	96.03%	N/A	10	1973
25	TWO MONUMENT SQUARE	119,442	10,253	\$23.50	91.42%	N/A	9	1980
26	25 PEARL STREET	32,000	N/A	N/A	100 %	N/A	3	1989
27	27 PEARL STREET	46,767	N/A	N/A	100 %	N/A	4	1971
28	ONE PORTLAND SQUARE	186,230	24,060	\$29.50	87.08%	N/A	10	1987
29	TWO PORTLAND SQUARE	145,000	3,693	\$28.00	97.45%	N/A	7	1990
TOTALS		2,416,327	90,527		96.25%	110,911		