HARNDEN COMMERCIAL BROKERS

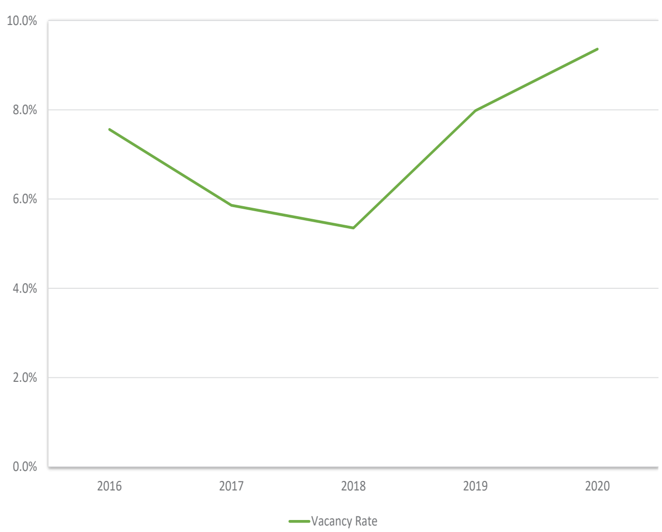
MID YEAR 2020 OFFICE MARKET OVERVIEW

GREATER PORTLAND MARKET

Mid-Year 2020 is like no other time in history for the Greater Portland office market. The coronavirus has affected everyone at some level. It has caused some deals to fall through or at least be put on hold and some deals to be accelerated. There is market uncertainty. Decision makers, may they be company CEOs or investors do not like uncertainty, and therefore have either chosen to pursue short term renewals or wait on the sidelines to see how things unfold. Most of the firms that are willing to consider longer lease terms have either benefited from these market conditions or are downsizing therefore improving their financial situation.

The virus has impacted overall deal volume, which decreased by 18% from Q2 last year. The lowest second quarter volume since 2009 and early indicators are that the third quarter will see a similar trend. It is too early to tell if COVID-19 has impacted vacancy rates. Vacancy rates have increased in all sectors; however, this is due to market movements that were in motion prior to the virus's detection. At mid-year, the overall vacancy rate for Downtown and Suburban combined Class A & B stood at 9.4%, an increase of 1.4% over year-end 2019 and 2.5% above the 5-year average. The second year in a row overall vacancy has increased.

Overall Greater Portland Vacancy Rate



Downtown's combined Class A & B overall vacancy rate is 8.1%, up from 6.5% at year-end 2019. Major contributors to this increase were Berry Dunn offering 38,000 SF for sublease at 100 Middle Street due to their upcoming relocation to 87,000 SF at 2211 Congress St. In addition, TD Bank has renewed and downsized by 20,000 SF at One Portland Square and KeyBank renewed and downsized by 14,000 SF at One Canal Plaza. However, there were several large deals including Northeastern University who leased 20,000 SF at WEX's second building Downtown at 100 Fore Street, Certify leased 53,000 SF in the former PayPower building at 320 Cumberland Avenue and Atlantic Fund renewed at Three Canal for 20,000 SF.

The Suburban combined Class A & B overall rate is 10.45%, up from 9.2% at year-end 2019. This is the highest overall Suburban vacancy rate since 2012. There continues to be a number of large vacancies in both Class A & B spaces. The most significant new availabilities since year-end 2019 are 104,000 SF at 2 Gannett Drive (Blue Cross/Blue Shield Building). BC/BS has not been fully utilizing the space and therefore decided to offer the space for lease. Additionally, 27,000 SF at 340 County Road when Husson University vacated and HNTB will be vacating in January 2021. On the absorption side, as mentioned Berry Dunn is relocating to 87,000 SF at 2211 Congress Street, HNTB took 15,000 SF at 82 Running Hill Road and Pika Energy took 15,250 SF at 53 Darling Avenue.

COVID-19 IMPACT

With COVID-19 spreading throughout the country this Spring, the landscape of the commercial real estate market has shifted. Prior to the COVID-19 outbreak, companies built out spaces that encouraged collaboration; long work benches with flexible seating, coffee bars, and multiple conference rooms. Open-office concepts which are now being reversed. Facilities managers, human resources and real estate executives are evaluating ways they can safely bring employees back to the office; with desks now further apart, frequent office cleanings, specialized filters for office buildings and employees rotating days in the office to name a few.

Many companies have renewed their current office space in the short-term during this uncertain time. This allows company leadership the time to re-evaluate their space needs and future configurations. While some employees may opt to continue working from home, it seems many would prefer to return to the office with the flexibility of working from home. Many Millennial and Gen Z employees are struggling to work from home due to lack of workspace, increased childcare responsibilities and distractions at home. Overall employee happiness for many has declined due to the lack of personal connections with colleagues and mentoring while working from home. The line between work and home life is blurred and harder for people to disconnect at the end of a work day. Company culture is struggling as a result in many industries that do not typically have employees working from home.

RETURN TO THE OFFICE

Despite the flexible work from home practices, overall office footprints are likely not expected to shrink as companies will have to account for social distancing and desk spacing. Companies that are choosing to relocate or downsize during this time are focused on suburban locations that allow for social distancing. Many larger firms will not be returning the full work force until January 2021. Some have suggested soft return dates this fall but it is not mandatory for employees to return. Many firms feel there needs to be a vaccine before most employees will feel comfortable enough to return.

Once employees return, the preliminary feeling is more will be working from home 2-3 days a week. CEO’s are concerned if 30% of their workforce is working from home on a consistent basis it will have an adverse effect on company culture and mentoring of the new/younger employees in the office and is therefore not sustainable. Looking ahead, firms will continue to evaluate how the coronavirus will impact their workforce and related space needs. Most of the firms have discussed uncertainty around whether they will need the same amount of space but they are confident they will need to reconfigure whatever space they have.

NEW CONSTRUCTION

Development in the Eastern Waterfront continues to grow with several national credit tenants beginning construction on large projects. Construction began on the new Covetrus building of 160,000 SF with an expected occupancy of Q3 2021. WEX continues to grow their footprint in the area as they plan to occupy an additional 80,000 SF of a new 100,000 SF building at 100 Fore Street, which is currently under construction. This is in addition to the 100,000 SF of new construction they moved into last year at 1 Hancock Street.

Sun Life Financial will be relocating its Maine headquarters from their South Portland location, to kick-off construction Q4 2020 for a new 100,000 SF building at the Portland Fore Street development. Sun Life will be occupying 76,785 SF on three floors with capacity for approximately 500-600 full time employees. The building will include a 700-car garage, one floor of retail and the top three floors of office space.

NOTABLE LEASE TRANSACTIONS

- **Mercy Hospital** leased 75,784 SF at 195 Fore River Parkway, Portland (Class A Building)
- **ON Semiconductor** leased 33,537 SF at 82 Running Hill Road, South Portland (Class B Building)
- **Atlantic Fund Administration** leased 20,270 SF at Three Canal Plaza, Portland (Class A Building)
- **Northeastern University** leased 20,000 SF at 1 Hancock Street, Portland (Class A Building)
- **Pika Energy** leased 15,250 SF at 53 Darling Avenue, South Portland (Class B Building)
- **Certify** leased 53,656 SF at 320 Cumberland Avenue, Portland (Class B Building)
- **Logisticare** leased 12,287 SF at 400 Southborough Drive, South Portland (Class A Building)

EAST END, PORTLAND - NEW CONSTRUCTION

Above, rendering of the Sun Life Financial building, 58 Fore Street. Expected to kick off construction Q4 2020.

RECENT HARNDEN COMMERCIAL TRANSACTIONS

Tenant/Buyer	*Property*	*City*	*HCB Represented*	*Total SF*
Logisticare	400 Southborough Drive	South Portland	Landlord	12,287
New England Life Care	600 Southborough Drive	South Portland	Landlord	11,606
Professional Disability Associates	One Canal Plaza	Portland	Tenant	8,128
Calare Properties	5 Bradley Drive	Westbrook	Seller	126,072
192 Western Avenue LLC	192 Western Avenue	South Portland	Seller	5,422

GREATER PORTLAND OFFICE: MID-YEAR 2020 SUMMARY

	Year End 2019					Mid Year 2020							
	Rentable Sq. Ft. (RSF)	Available Sq. Ft.	Direct Vacancy Rate	Sublease Space	Overall Vacancy Rate	Rentable Sq. Ft. (RSF)	Available Sq. Ft.	Direct Vacancy Rate	Sublease Space	Overall Vacancy Rate	Absorption Sq. Ft.	Absorption % of RSF	Weighted Average
DOWNTOWN													*MG*
Class A	1,947,036	42,198	2.17%	9,244	2.64%	1,947,874	76,373	3.92%	48,393	6.41%	(33,337)	-1.71%	$25.65
Class B	2,959,701	256,421	8.66%	12,812	9.10%	2,959,701	261,702	8.84%	13,123	9.29%	(5,281)	-0.18%	$19.18
Sub-Total	**4,906,737**	**298,619**	**6.09%**	**22,056**	**6.54%**	**4,907,575**	**338,075**	**6.89%**	**61,516**	**8.14%**	**(38,618)**	**-0.79%**	**$20.64**
SUBURBAN													
Class A	2,551,162	353,924	13.87%	-	13.87%	2,551,162	375,534	14.72%	-	14.72%	(21,610)	-0.85%	$22.70
Class B	2,872,758	145,134	5.05%	-	5.05%	2,872,758	191,434	6.66%	-	6.66%	(46,300)	-1.61%	$15.71
Sub-Total	**5,423,920**	*499,058*	**9.20%**	-	**9.20%**	**5,423,920**	*566,968*	**10.45%**	-	**10.45%**	**(67,910)**	**-1.25%**	**$20.34**