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Greater Portland's office market will continue to operate in a challenging environment for 2009

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Greater Portland's 11.3 million s/f class A and class B office market will continue to operate in a more challenging environment for leasing and sales activity in 2009 and can best be characterized as uncertain.

With this uncertainty in the market comes delay in implementing plans, committing capital, and making decisions. The unprecedented failure of the global credit markets has had an impact on our local real estate industry, and while our regional lenders are healthy and have assured us that they are open for business, we are not immune from the fallout of the Wall St. crisis.

Greater Portland's total office vacancy rate, included sublease space, rose to 9.05% in 2008, which is a dramatic increase from 2007s overall vacancy of 6.21%. As of December 1st, 2008 there is an additional 349,542 s/f available in the Greater Portland office market than at the same time last year. This increased vacancy is due in large part to many office users postponing their expansion plans due to economic conditions, which results in limited demand for space.

Downtown Portland's class A and B office space increased its vacancy rate 38% from 6.4% in 2007 to 8.83% in 2008. The suburban office market increased 127% in 2008 from 3.55% in 2007 to 8.07% in 2008. The medical office market increased from 1.3% in 2007 to 6.61% in 2008. This dramatic increase in the medical office vacancy rate was due primarily to two large new construction projects that left vacancies throughout the Greater Portland market.

We anticipate continued slowdown in office leasing in 2009 for the reasons stated above. With the economy in turmoil, large corporate users are not likely to make a move in this environment. That said, we think that our mix of locally run companies is financially sound and should be able to navigate these turbulent economic waters.

While there continues to be activity in the marketplace as tenants with expiring leases consider alternative locations, most tenants end up staying where they are. Landlords recognize that vacancies are expensive, particularly in an uncertain and diminishing economic environment. In order to avoid expensive improvements for new tenants, lost revenue from vacancies and leasing costs, landlords are providing incentives for tenants to stay in place. These incentives include attractive rental rates and structures, free rent and limited tenant improvement allowances. This aggressive renewal strategy has forced landlords seeking to attract new tenants to employ the same incentives strategy, with often more generous free rent periods and tenant improvement allowances.

We believe this trend toward a tenant-oriented market will continue through 2009 in both the suburban and downtown office markets. We do not anticipate the vacancy rate will experience the same increase in 2009 as it did during 2008. There will be little or no new development coming on line in 2009 as the market works to absorb existing vacant space. Greater Portland's office market is historically very stable. Due to a limited supply of speculative office space available in the market, the balance between supply and demand should move towards stability. Since much of the growth in our market is organic, we expect that once credit market crisis and recession are in the rear view mirror, our market can begin to recover and some of the stalled proposed development projects can move forward again.

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