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"Flat is the new up" is an accurate snapshot of the state of commercial real estate in southern Maine

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The hottest movie in Hollywood today is Wall Street. However, with all due respect to Gordon Gekko and his philosophies, greed is no longer good. In this market, I'm encouraging my clients to heed the words of a new catch phrase I recently heard, "Flat is the new up." While not as captivating as Gordon's timeless quote it's certainly a more accurate snapshot of the current state of commercial real estate in southern Maine.

Let's reflect a bit on why a more conservative approach has become en vogue. Two years ago, the stock market crashed, banks slipped into crisis mode, home sales came to a screeching halt and "Black October" was a stark reality. As a result, property owners and landlords began adjusting their expectations (not to mention their budgets) and prepared for a tough stretch.

Vacancy rates increased throughout the region. Lease rates dropped. Commercial demand - including office, retail, industrial and investment sales - slowed significantly. Landlords and property owners began to see their shining investments, many made in the previous five years, suddenly produce dimmer returns.

However, data suggests that things began to rebound towards the end of 2009 and into this year. This coming January, my company, CBRE | The Boulos Co. will release our 2011 Office Market Survey, a comprehensive survey of all Class A and B office space in Greater Portland. Each building's vacancy rate and asking lease rates are carefully calculated and charted. It serves as an excellent barometer of commercial real estate trends and the overall health of our market.

(The 2010 OMS in its entirety is available as a free download at www.boulos.com)

Our research has reflected a stabilizing vacancy rate. From 2007 to 2008, the overall rate in Greater Portland jumped from 6.21% to 9.05%, an alarming 45% increase. In 2009, however, the rate only rose 2% to an overall vacancy rate of 9.21%. While all the numbers are not in for 2010, several large transactions should have positive impacts on the office market and continue the trend towards recovery. These include Community Counseling Center signing a lease for 34,000 s/f and KG Partners signing an 11,000 s/f lease both in downtown Portland and United Health signing a 22,000 s/f lease in suburban Scarborough.

Despite the good signs, property owners and landlords are wise to maintain a tempered confidence and expectation level. Where landlords were anticipating significant net profits, they are now happy to break even. Again, "flat is the new up."

A number of property owners are promoting low "introductory rates" to attract new tenants. These are typically short-term, low-rent commitments that will escalate to market rates over the course of a lease.

By offering these concessions, the landlord is assured of having his operating expenses and utilities paid for during this down period and a tenant can take advantage of historically low lease rates.

Another popular technique is to "blend and extend" an existing tenant. My company recently represented a 60,000 s/f office tenant that had two years remaining on their lease and an option to renew for another 10 years at a predetermined rate. The option rate was well above today's market rates. Armed with the fact that there were a number of comparable alternatives out there, we presented the landlord with a proposal to renew for an additional 10 years today but at a lease rate at current market levels. We blended the rate and extended the term.

The landlord chose to accept the proposal to avoid the risk, time and costs involved with finding a new tenant. He was happy to solidify his building with a long-term, stable tenant and put his property in a better position for long-term financing. The tenant, of course, was happy to remain in their current building at a lower rental rate and to stabilize their real estate needs for an additional 12 years.

Commercial real estate owners that ride the wave, rather than flail ineffectively against it, will survive and ultimately prosper. The future is bright for those willing to respect their tenant's needs and sacrifice today by temporarily accepting stability in lieu of higher returns. Sorry to disappoint you, Gordon.

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