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Maine commercial real estate market is well balanced to weather the brewing storm

January 23, 2008 - Spotlights

It would serve the U.S. commercial real estate market well, if not the national economy, if the old political adage "As Maine goes, so goes the Nation" held true. Unfortunately, Maine is far more influenced by the U.S. economy than influential. Recent downturns in the U.S. economy, brought on by the weakening housing market and credit crunch will undoubtedly affect Maine's economy. Underlying fundamentals in Maine's commercial real estate market suggest Maine is well balanced to weather the brewing storm but not elude it.

CBRE/The Boulos Company recently published its 2007 year end office market review for greater Portland. What is notable from the data is how stable the office market has been the past few years, offering predictability to its investors and tenants. Our recent survey indicates that overall vacancy increased a de minimus 0.23% in 2007 to 6.21%. Several key submarkets, including Class A downtown, Class A suburban and medical office, each enjoyed decreasing vacancies amidst new construction and growing supply. The modest overall vacancy increase also held true in two other smaller office markets in Maine; namely Lewiston/Auburn and Augusta, where overall vacancy levels are higher but have been consistent for the last couple of years.

When analyzing the Maine real estate market, it is important to bifurcate the residential and commercial markets. Maine, like much of the nation, has felt the downturn of a slumping residential market. However, fundamentals in Maine's commercial real estate market are different. Supply and demand of commercial space are more in balance, and while the capital markets are in a transition, there does appear to be adequate capital at historically low interest rates, albeit with greater owner equity requirements.

A key to Maine's future commercial real estate success is the continued stability of supply and demand. As long as developers continue to refrain from speculative building, which is likely due to greater equity requirements from the capital markets, then our commercial real estate market should remain healthy, if not a bit sluggish. Two national factors to watch are job creation in both New England and nationally and consumer confidence; and what's being done federally to affect them. In early January, Federal Reserve Chairman Ben Bernanke said, "additional policy easing may well be necessary."

Maine's tends to be organic, meaning that most of our growth comes from companies already present in the market as opposed to new industry entering the State. What this means is that local businesses need to continue to encourage and foster growth opportunities outside the state. While job growth is expected to slow nationally, state economist Charles Colgan predicts that job losses in Maine will not be significant, but adds "step gingerly."

Maine's greater threat is consumer confidence and its effect on spending. Consumer confidence will have its greatest impact on the retail sector. There are a number of significant retail developments

underway throughout Maine with many more in the planning process. The success of the projects depends on whether consumers continue to spend. With early holiday sale numbers not showing positive signs, we are likely to hear of more storm warnings nationally. Not unlike the office and industrial markets, the key to stability in Maine within the retail market will be limited speculative building and spending.

Our forecast for 2008 is that Maine's overall commercial real estate market will remain stable, but sluggish. Vacancies will increase slightly and as a result, tenants in all sectors will enjoy negotiating leverage. Capital markets will continue to push for greater owner equity in both investment and owner/user acquisitions which will limit speculative building. While job growth is expected to lessen, even modest growth will keep a sufficient floor under demand for all sectors, with the possible exception of retail. Retail will be largely governed by continued difficulties within the residential market and its effect on consumer confidence and spending.

There will be opportunities in commercial real estate in the year ahead and while we see the dark clouds rolling in, we are not ready to issue severe storm warnings yet, but stay tuned.

Craig Young, CCIM, is a partner with CB Richard Ellis|The Boulos Co., Portland, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540