



nerej

Positive signs include rising manufacturing indexes, lowering unemployment rates and increased tourism dollars

August 02, 2012 - Northern New England

The summer blockbuster movie season is upon us. I can just imagine the tagline in the trailer for what I consider a major theme in the Maine commercial real estate market, "The RETURN of the owner/user buyer!" Admittedly, it's not that catchy; but it's true. Small business owners are finally feeling good enough about the economy and their own companies to start buying property again.

Since the start of the recession, small business owners with real estate transitional needs have wrestled with the buy vs. lease question. In trying times, it's been very easy and reasonable for them to play it safe with a short-term (2-3 years) lease. Lease rates, as has been well documented, have fallen in all commercial sectors so it made financial sense for them to simply rent. Furthermore, many have had a general lack of confidence in their own businesses given the overall economic downturn. All of which has contributed to the perfect storm of inaction and short-term thinking that we've experienced the last three or four years.

However, in the first two quarters of 2012, I have seen a drastic change to that trend in Southern Maine. I believe there are several reasons for this and, like all industries, it starts with consumer confidence. The aforementioned hesitation has evolved as business owners begin to see a light at the end of this recession tunnel. There are positive signs out there including rising manufacturing indexes, lowering unemployment rates, and, specific to Maine, increased tourism dollars. As a result, consumer confidence seems to be on the rise.

One of the interesting silver linings of this recession is that banks are lending very aggressively and favorably to owner/users. Financing packages for small owner/occupants are historically attractive. Locally, there are a number of regional banks that compete heavily with one another. This further incentivizes small business owners to take action because the buy vs. lease analysis begins to clearly favor a purchase. Banks are also becoming more comfortable working with the SBA's CDC-504 loan program. This has great appeal to buyers because they, typically, are only required to come up with 10% as a down payment. On conventional loans, the down payment is still hovering at 20-25%. So this is a significant savings to the buyer and, for small businesses, every penny of working capital counts.

Anecdotally, I've closed six owner/user sales this year and two utilized SBA financing. Each deal took a bit more time and required more paper work, but the additional labor proved worth it at the closing table. And, as I think about each of those buyers, I can honestly say all would have likely leased something short-term only 2-3 years ago. One was a local manufacturer and retailer. The owner is a young, entrepreneurial woman who started the business only six years ago. She's always leased but came to me weighing her expansion options. As we did the analysis, it became clear that buying simply made more sense. We identified a location, she was able to secure financing, and her monthly payments are well within her budget. But, to me, the key was that she had enough faith in

her own business that she was comfortable taking on a 20-year mortgage.

All over Southern Maine, many municipalities are also offering incentive plans and financing assistance for local small businesses. In Portland, for example, the city is offering what they call a 60-30-10 Revolving Loan Program. It's essentially a gap financing plan set up somewhat similarly to the SBA-504 program. The city guarantees 30% of the loan and partners with a bank or lead lender to cover 60%. The end result is the buyer only has to come up with 10%. There are less fees and red-tape than the SBA program so, for a Portland-based small business, this is a great opportunity to buy commercial property. Similar programs have popped up in Westbrook, Saco, South Portland and elsewhere.

I've spoken to a lot of local bankers and lenders and all agree that, despite the abundance of attractive loan packages out there, this window of opportunity will close. And that's another message that I think is reaching buyers. Rates have certainly stopped dropping and, in some cases, have ticked up a bit. That, ironically, may be a good thing as the market corrects itself and buyers sense a bit of urgency. The final piece of the puzzle has been the shrinking divide between buyer and seller expectations. Sellers have come to grips with the reality of the market and buyers are starting to realize that the market has stabilized. The "shark in the water" mentality is slowly dissipating.

As the nation slowly recovers, I'm most pleased to report that Southern Maine commercial market is improving as well. Small business owners deciding to make the commitment to buying commercial property and successfully closing deals is clear evidence of that. The owner/user buyer has returned to Maine...someone call Hollywood.

Justin Lamontagne is a broker with NAI The Dunham Group, Portland, ME.

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