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Commercial real estate in southern Maine continues to thrive

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There is a palpable increase in enthusiasm across the board in Southern Maine's commercial real estate markets. Continued low interest rates and the concern that they may not be around for much longer, has driven demand for investment properties, new development, and has prompted stable businesses to capitalize on opportunities to owner occupy their own real estate. Additionally, the overall effects of the improved economy combined with the small amount of inventory we have in our market has pushed investors and businesses off the sidelines and into action.

Sellers of quality investment product are getting paid handsomely for the revenue streams their properties generate. Commercial property valuations and appraisals continue to be heavily reconciled in favor of the income approach over comparable square footage/units and replacement cost. The higher the creditworthiness and better the stability of the income stream, the higher the price. When an asset has a quality location of strategic value, we see a further exacerbation of these variables squeezing cap rates lower. Low interest rates have generated a climate where investors of all sizes and aptitudes, from the individual looking to diversify a retirement portfolio to the institutional real estate investment trusts taking advantage cheap capital, are willing and able to afford higher purchase prices yet still preserve a good return on equity.

The most inexpensive capital available is currently for the multi-unit housing sector. The subsequent result of this is low cap rates (as low as 6.5%) and high per unit pricing on existing product (as high as \$120,000 per unit). Additionally, the ability to get a fixed rate loan for 30 years plus, has renewed viability in development for rental and condo projects in downtown Portland.

The small business administration (SBA), has taken advantage of interest rates by creating packages for owner/users to borrow at all time low levels. Small business owners who have historically leased there space are now finding that for a 10% down payment they can drive down their occupancy costs, customize their space to align precisely with how they are growing, and create equity while depreciating an asset.

Low commercial rates, increased optimism in the overall economy and inexpensive access to capital has created a sense of urgency to strike while the iron is hot in Southern Maine's commercial real estate markets. This has resulted in increased deal volume for investment product, new construction and SBA owner occupied deals. With interest rates ticking up from early summer there is momentum to take advantage of existing opportunities while they are financeable. It's difficult to see beyond the short-term given the geopolitical climate we're in, but Southern Maine is poised to finish 2013 strong and capitalize on the market's optimism to lead us into 2014.

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