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I predict the office market will sustain this crisis, if not thrive, in a reinvented way - by Justin Lamontagne

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Justin Lamontagne

As of the writing of this article, Maine is mired in a commercial real estate market unlike any we have ever seen. Of course, that does not make us unique as the COVID-19 pandemic cares not about demographics, location or market sector. But Maine does have opportunities, and certainly challenges, that are specific to our state. It has been equal parts daunting and encouraging to see how this crisis has impacted Maine but, also, how creatively and strongly we have responded.

My sense is that someday we will look back at this period of time as the Great Pause. That's the general theme I'm seeing in all sectors in Maine over the last 1-2 months. As we all know, commercial real estate acquisitions and transitions are "big-ticket items". And big-ticket items require long-term planning and commitment. Material unknowns and market uncertainty create angst in any business leader. And if this pandemic has taught me anything, it is that people are as afraid of the unknown as they are of the virus itself. That is giving great pause to decision-making.

Because we are, quite literally, all in this together, suspending commercial real estate has actually been rather easy. Not to say it hasn't come at a great financial cost. But landlords, tenants, sellers and buyers are proving remarkably cooperative. In all sectors, we are seeing tenants request rent deferrals. And most savvy landlords are willing, provided their lenders are flexible or there is no debt. In fact, many of our deals have included some sort of "blend and extend" whereby a certain amount of rent is deferred or forgiven in consideration of an additional term at the end of the lease.

And many of our active transactions are also able to hit pause. March and April 2020 will go down as very lean months for most commercial real estate brokers. Lenders dusted off the fine print in many Commitment Letters referencing "adverse changes to the asset prior to closing," citing COVID-19. And pending leases with near term occupancy requirements and long-term commitments were tabled indefinitely. Again, speaking broadly, those doing the negotiating are understanding and willing to table things and reassess where we are, in a month or two.

And that's really the crux of the commercial real estate market today. We are in the middle of arguably the most volatile moment of all of our lives. What good news we hear today is clouded by speculation of tomorrow's doom. And I'm not just talking about the stock market. So, how can any commercial real estate broker coach their clients on what to do regarding a long-term real estate investment? If we're being honest, the best advice in most cases is to wait and see. Broker that "pause button" in the best interest of all parties involved.

That said, some sectors and instances do call for continued activity in the midst of these uncharted waters. I am seeing some inspiring stories, particularly, in the industrial market. Maine has a long history of manufacturing, and several of our local businesses have actually pivoted, producing critical Personal Protective Equipment for our front-line health care workers. They recognized a great need, and with infrastructure and workforce in place, many were able to create new product lines within a week. And several are expanding.

Another positive storyline, and a much needed one, is the repositioning of Maine's beloved craft brewing industry. Once a business that relied heavily on packed tasting rooms, they, too, have pivoted. The model is now in-house production, leading to easy, hands-free curbside pick-up. You pay online prior to arriving, they bring your beer out, you go home happy and everyone is safe. Of course, it's not nearly as fun or fulfilling as drinks with your friends at the local brewery. But it's keeping the employees paid and the lights on.

Along those lines, Maine was an early adopter and strong supporter of "Buying Local." As supply and food chains are surely disrupted, we rest somewhat easy knowing we have some of the finest home sourced crops of fresh food in the world. Just this week, I bought scallops off the back of a truck in Scarborough, fresh vegetables and meat from a farm in New Gloucester and hand sanitizer from a newly converted gin-distillery in Portland. Additionally, many efforts are being made to keep our restaurant scene alive with pick-up and deliveries moving faster than ever.

Of course, on the other hand, Maine's economy is largely comprised of small, independently owned businesses. The stay-at-home orders, while necessary to flatten the curve, will inevitably close many of their doors. I expect significant vacancies in the more rural parts of Maine, especially in smaller retail and office spaces.

And I'll finish with an observation that may be counterintuitive. In this new, remote world we are living in, I predict the office market will sustain this crisis, if not thrive in a reinvented way. For years, there has been a discussion in the office market on the viability of working remotely. Are the obvious cost savings worth the sacrifice of interpersonal connectivity? I would argue, for most office users, the answer is proving to be a resounding no. My clients, friends, co-workers and I are missing the all-important "collisions"; the random moments when an idea is shared, or a lead is fostered, or a relationship is developed simply by bumping into an associate. I have no doubt that this quarter, I am losing deals, not only because of COVID-19 delays, but because I am only seeing my associates and clients via Zoom, email and text. Collaboration and teamwork breed business and ingenuity. That happens most efficiently, consistently and enjoyably in person. I, for one, cannot wait to get back into the office.

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