



96

**MEREDA
INDEX**

SPRING EDITION

2017



96



**SHELLY R CLARK,
VICE PRESIDENT OF OPERATIONS**

Maine Real Estate & Development Association
6 City Center, 3rd Floor, Portland, ME 04101
T: 207-874-0801 | F: 207-899-4870
www.mereda.org | info@mereda.org



Maine Real Estate & Development Association

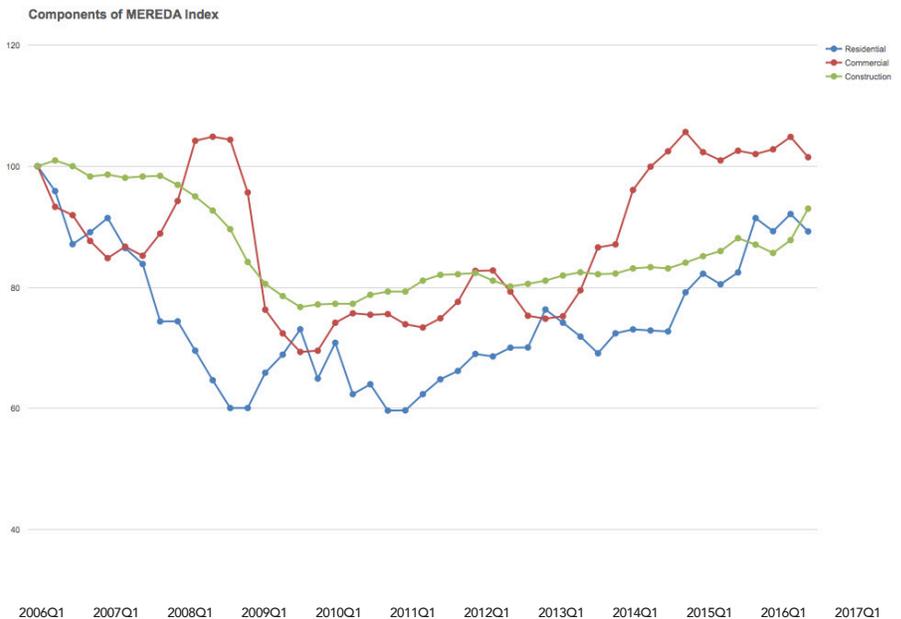
Supporting Responsible Development

INTRODUCTION

The MEREDA Index is a measure of real estate activity designed to track changes in Maine's real estate markets. The Index is a composite of nine seasonally adjusted measures reflecting both new development and transactions involving existing properties and it covers both the commercial and residential markets statewide. The Index is measured quarterly beginning in the first quarter of 2006. This report covers the Index through the first quarter of 2017.

The Maine Real Estate & Development Association (MEREDA) is an organization whose mission is to promote an environment for responsible development and ownership of real estate throughout the state. MEREDA accomplishes its mission through legislative advocacy, regulatory oversight, sponsorship of programs and conferences, and by serving as a unified and proactive representative for real estate and economic development interests.

MEREDA is the state's leading organization of commercial real estate owners, developers and related service providers. Founded in 1985, we now have over 300 members who employ thousands of Maine citizens and invest millions of dollars in the Maine economy each year. MEREDA is the only voice for the real estate development industry in Maine. Our success is dependent upon bringing together the many different trades that are vitally interested in promoting positive growth in our great state. MEREDA advocates for fair, consistent, predictable regulations to create a healthy economic climate. Our efforts to promote responsible growth through fair and predictable legislation and regulation are vital for a return to a healthy, thriving economy.



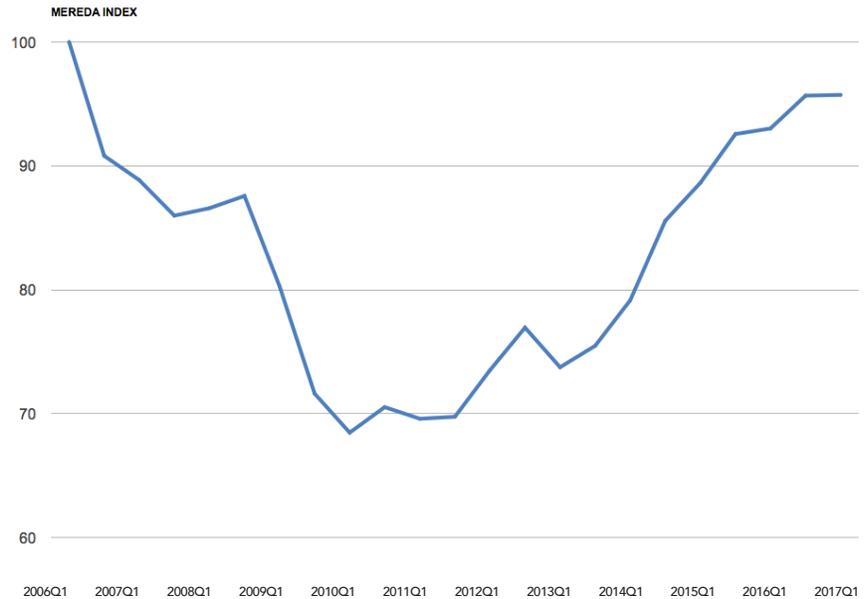
96



SPRING EDITION 2017

THE MEREDA INDEX: 96

The first quarter of 2017 Index of 95.70 showed only slight growth from the third quarter 2016 value of 95.67, but this was primarily due to a slowing of activity in the first quarter of 2017. In fact, the fourth quarter of 2016 was quite strong, with an Index of 98.04, the Index's highest value since the first quarter of 2006. The index grew only 0.1% over the past six months, but it grew by 2.9% over the past year. The Index grew by over 7% over 2016, the strongest growth since the recovery from the recession began.



That the Maine economy has sustained such a healthy and robust real estate and development sector is remarkable. This quarter marks the eighth in a row -- that's two years -- where The MEREDA Index has been above 90, a number not otherwise seen since the height of the market in 2006.

The commercial sector is in a very robust position, with the most growth in the number of square footage leased, which is perhaps an indication that incremental business growth continues, with fewer big companies relocating and/or forcing large transactions.

The numbers also signify the first growth in construction employment in quite some time, an indication that hiring is finally catching up with the backlog of projects ready to go online. That said, we have a long way to go to make up for lost time, and all indications are that there still are not enough qualified tradespeople to fill the open positions, which may start to put downward pressure on other sectors. MEREDA has identified the issue as critically important to our industry and continues to engage with strategic partners to find solutions and inspire more young people to enter the field.

On the residential side, transaction volume remains steady with new housing starts moderating a bit, metrics that point to the lack of inventory in the market and the high cost of construction.

With interest rates still low and investors still bullish on the market, this edition of The MEREDA Index bodes well for the prosperity of this important industry.



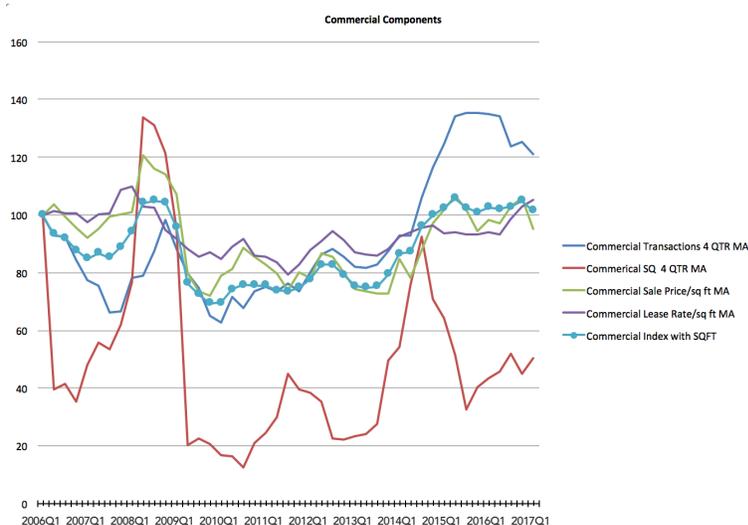
PAUL PECK, J.D.

President of the Board, MEREDA
President, LWS Development
Attorney, Drummond &
Drummond LLP

THE COMMERCIAL COMPONENT: 101

50%
COMPOSITE
INDEX

The commercial component showed solid growth across the past six months, rising by 8.6%. Commercial lease rates and square footage were both strong over this period, offsetting weaknesses in the volume of commercial transactions and sales price per square foot. Commercial activity overall has remained near or above the 2006's first quarter levels for total transactions and sales price per square foot. Only total square feet sold has remained well below 2006 levels as office space demand has shown no significant growth.



“The commercial index continues to show solid growth, rising by 8.6% in just the past six months! All sectors of commercial real estate – office, retail, industrial and investment sales, including apartments, have seen continued appreciation and strong demand over this time period. The commercial index remains at or above the 2006 first quarter levels, which is the comparable time period. While overall sales volume is down, overall leasing transactions have increased and both lease rates and sale prices have increased on a per square foot basis over the previous time period.

A key factor to the strength of the commercial index market remains the lack of new construction in all sectors of commercial real estate except the construction of apartments, both small and large scale projects. There are a few smaller office buildings under construction (i.e. 16 Middle Street, Portland – at 47,734 sf) and several hotels (including 1 downtown and 2 in the Maine Mall area). While there have not been any large scale office, retail or industrial developments in more than a decade (longer for office), all sectors have large scale projects designed and/or approved. We are likely to see new development into the next 12 months. The Ridge (former Blue Rock gravel site in Westbrook) will break ground this summer, a 500,000 sf retail complex to be anchored by Walmart and Hobby Lobby.

We continue to see a flight to quality. Nicer Class A office buildings and better located retail properties are seeing the greatest increase in demand and hence increased leasing price per square foot. It should also be noted that while transaction sales are lower over the past year, that has more to do with the overall lack of product than demand in the market. There remains plenty of money on the sideline ready, willing and able to purchase owner/user and investment properties as they become available. All sectors continued to see significant investment sales including; office – the Hathaway Center in Waterville for \$20,150,000 and the Fairchild/Dead River building in South Portland - \$17,900,000; Retail – the Hobby Lobby portfolio in Auburn - \$20,000,000; Industrial – the Interstate Brands facility in Biddeford - \$12,436,000; and Apartments – the Red Bank Portfolio in South Portland - \$87,000,000.

96

**MEREDA
INDEX**

SPRING EDITION 2017



CRAIG YOUNG | CCIM
Broker, Partner
CBRE | The Boulous Company

96

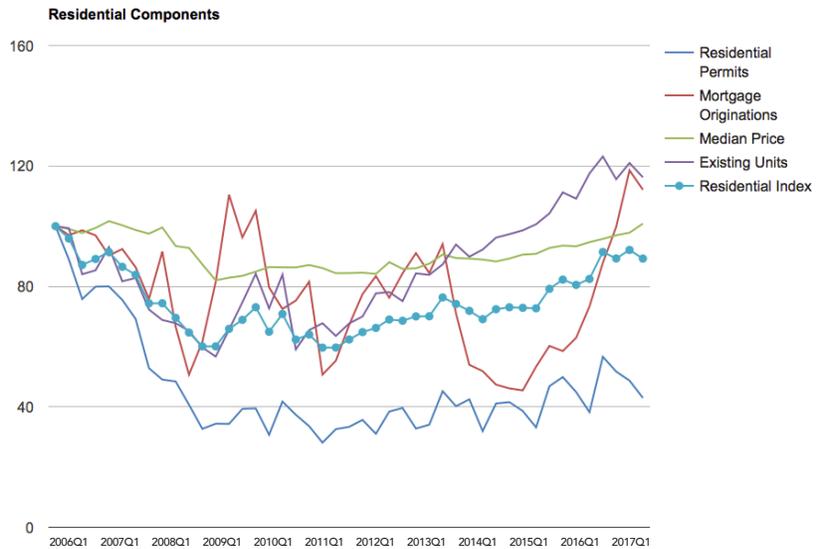


SPRING EDITION 2017

THE RESIDENTIAL COMPONENT: 89

40%
COMPOSITE
INDEX

The residential component was unchanged over the past six months as sales of existing units and median price remained strong, but permits for new units dropped by nearly 17%. Estimated quarterly median price hit \$195,000 on a seasonally adjusted basis, equivalent to the 2006 first quarter figure on which the Index is based. Sales of existing units and mortgage originations were both strong in the fourth quarter of 2016, but fell off in the first quarter of 2017.



“Residential real estate prices are equivalent to 2006 prices in many parts of Maine. The estimated quarterly median price hit \$195,000 on a seasonally adjusted basis. The residential index has remained unchanged over the past six months while the sales of existing units and median prices have been strong. Permits for new construction starts have dropped by 17%, however we expect to see an increase over next two quarters.



DAVA DAVIN
Designated Broker/Owner
Portside Real Estate Group

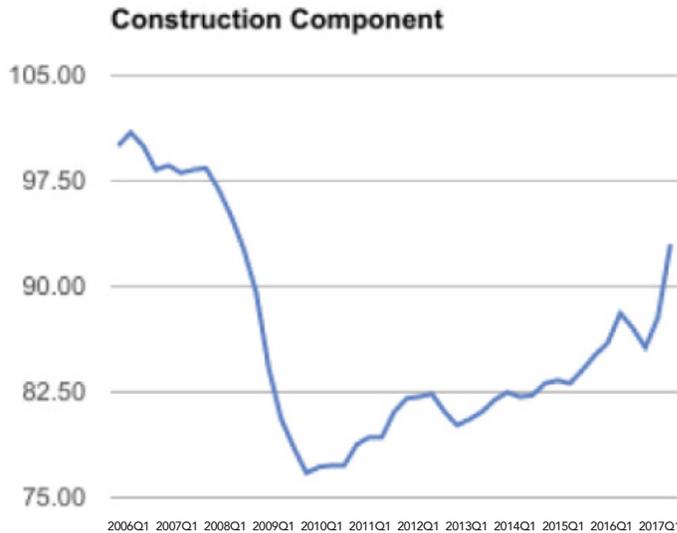
Sales of existing units and mortgage originations were both strong in the fourth quarter of 2016, but fell off in the first quarter of 2017 as expected. The first quarter of the year is historically the slowest quarter for residential sales in Maine. The balance of 2017 will be robust in both of these categories. Interest rates have increased slightly over this time and are predicted to creep up but remain historically low for the next 6 months.

The residential real estate market in the Greater Portland Area is challenging for many buyers and moving swiftly for sellers. In the previous 6 months, 2,004 homes have sold in Cumberland County with a median days on market of 30 and a median sales price of \$260,000. There are 879 pending listings with a median of 14 days on market at \$289,000 median list price. Currently there are 1,085 active listings in Cumberland County, the median days on market is 56 and median price is \$349,900. The market is showing sensitivity to value and homes that are priced appropriately are attracting multiple offers. Baby Boomers and out of state buyers are putting pressure on limited inventory in Greater Portland. As a result, prices are on the rise and the market will continue to be a seller's market until inventory catches up with buyer demand.

THE CONSTRUCTION COMPONENT: 93

10%
COMPOSITE
INDEX

The construction component, based on construction employment, has shown significant strength over the past six months (up 8.6%) and over the past year (up 5.5%). This is the strongest growth in construction employment over the past several years.



96

**MEREDA
INDEX**

SPRING EDITION 2017

In terms of southern Maine construction activity, the Winter of 2016-2017 was one of the most active in recent memory. The number of projects underway is putting added pressure on an already strained skilled labor pool. Construction employment data reflects this strong market with measures rising to levels not seen since mid 2008. However, the substantial rise in construction employment only tells a partial story. At AlliedCook Construction we are seeing this added pressure result in an unpredictable subcontractor market, lengthening lead times and longer overall construction project schedules. Subcontractors are being selective in the work they bid and sometimes even backing out of projects after bid time due to their increased workload and their capacity limited by labor availability. Materials are becoming more expensive and taking longer to deliver as suppliers and fabricators struggle to keep up with the increased volume of work. There is also substantial movement occurring within the ranks of existing construction personnel, both in the trades and in management, as people seek out growth opportunities by jumping from one employer to the next. Consequently, wages are inching up as contractors work harder to keep their in-place workers from moving to other companies, and new skilled labor continues to be difficult to find or slow to develop.

Many construction clients are working to counter the impacts of the current market conditions by establishing their design and construction teams early rather than relying on the traditional RFP or Hard Bid contractor selection processes. Better, more creative planning and a collaborative preconstruction process can lessen unpredictability and risk in the current market. AlliedCook continues to focus solely on this high service business model with 100% of our current workload coming through negotiated means. This approach allows the client and their project to be ahead of the general market in lining up subcontractors, ordering materials, and applying for permits.

We expect the strong market and competitive employment conditions to continue at least through the remainder of 2017. Investment in employee recruitment, retention, and training will continue at an increasing rate, and skilled workers will continue to have their pick of employer.



MATTHEW D. COOK,
LEED AP
President
AlliedCook Construction



**CHARLES S. COLGAN,
PHD**
President
Maine Center for Business &
Economic Research
University of Southern Maine

TECHNICAL NOTES

All data is either quarterly or monthly, converted to quarterly and then either seasonally adjusted (residential and construction data) or trended using moving averages (commercial data) and then compared to the value of each variable in the first quarter of 2006 (2006Q1=100). Data sources for the index include: the Maine Association of Realtors, CBRE | The Boulos Company, Maine Department of Labor, Mortgage Bankers Association, U.S. Census, and Moody's Analytics.

The relatively small volumes of real estate transactions in Maine and regular seasonal changes in the residential market mean that the raw numbers comprising the index can be very volatile from month to month and quarter to quarter. The index is constructed using methods that adjust for seasonal changes and better capture underlying trends in the real estate market. The underlying data is also subject to regular revisions as new information becomes available. Comparisons between the absolute values of the index in different editions of the index may not, therefore, be meaningful.

SPONSORED BY



THANKS TO OUR PARTNERS AT THE MUSKIE SCHOOL



PORTLAND • GORHAM • LEWISTON • ONLINE

MUSKIE SCHOOL OF PUBLIC SERVICE

