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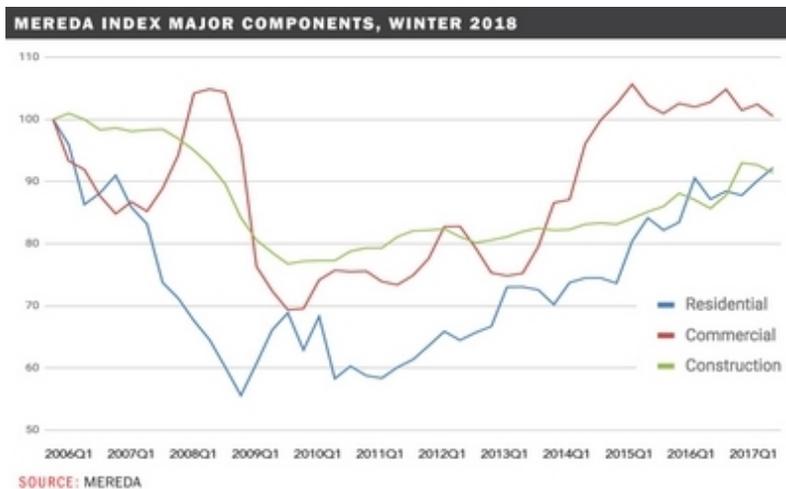
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MEREDA Index: State's real estate activity hits 10-year high

BY **JAMES MCCARTHY**

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COURTESY / MAINE REAL ESTATE AND DEVELOPMENT ASSOCIATION

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"The chief takeaway is that the commercial and residential real estate markets, as well as construction employment, are continuing to be very strong," Paul Peck, an attorney at Drummond & Drummond who serves as president of the Maine Real Estate and Development Association's board, told MaineBiz in a telephone interview prior to the unveiling of the index at MEREDA's annual real estate forecast conference today in Portland that was attended by more than 800 people. "It's the highest level we've been at since the index began in the first quarter of 2006 — so that's good news for Maine."

Peck, who also is a principal at LWS Development, said the real estate sector has become the second-most-important driver of Maine's GDP, behind only health care, according to the U.S. Bureau of Economic Analysis.

Peck pointed out that construction employment posted a 6.7% increase during the past six months, which is one of the strongest six-month periods for that indicator since 2010.

"That's significant," he said. "Those are very good-paying jobs."

In his written comments within the MEREDA Index report, Peck acknowledged that the flip side of the positive growth trend in construction employment — which includes both development and redevelopment in both the residential and commercial sectors — is the continuing challenge Maine contractors and subcontractors face in finding the workers they need.

"Growing capacity on the construction side of our industry will be the key to maintaining our economic trajectory," Peck stated. "The

demand exists, and this segment would likely grow more robustly if more skilled workers were available.”

Peck said MEREDA will be devoting more time and attention to workforce development in the construction trades during 2018. He said innovation and taking advantage of new building technologies involving offsite construction of modular units, which accelerate onsite construction and allow for fewer onsite workers, are two potential answers to the workforce problem that MEREDA and its members will be looking at more closely.

Shelly Clark, MEREDA's vice president of operations, in her written comments reported that the MEREDA index — which is a composite of nine seasonally adjusted measures — showed a 1.5% gain over the six months from March to September 2017 and a 1.2% gain over the 12 months between September 2016 and September 2017.

The commercial component, which comprises 50% of the composite index, posted a modest retraction from the prior year, with the overall market declining by 1.6% in the six months ending in September.

“The commercial component overall still stands above the pre-recession levels (on all measures except square footage),” reported Shawn McKenna, vice president of commercial banking at Bangor Savings Bank. “This reflects the overall state of the Maine economy, which has also reached pre-recession levels of employment but is growing at a very slow pace, indicating relatively weak demand for commercial space.”

McKenna said much of the financing activity seen over the past year has been tied to “new construction projects still in the works, not yet ‘shovel ready,” and so would not dramatically impact economic indicators for another six months.

“Looking forward, there are some possible headwinds in the commercial market, primarily in the form of rising interest rates,” McKenna reported. “However, any dampening that higher interest rates may have is likely to be offset by the recent passage of the tax reform bill and continued competition among banks and other lending institutions for quality real estate transactions.”

The residential component, which comprises 40% of the composite index, saw 5.8% growth between March and September 2017 and 5.2% for the year-to-year period that ended in September 2017. Permits for new single- and multi-family construction posted more than 20% growth on a seasonally adjusted basis from March to September.

“Demand for housing in urban centers continues to build,” reported Erin Cooperrider, development director of Community Housing of Maine and a principal of The NewHeight Group. “This was dramatically evident in Portland, with more than a dozen construction projects underway in 2017. Many of these were market-rate projects, and the ongoing need for affordable housing is acute in Portland, where 71% of renters have low incomes and 74% of local home owners were unable to afford the median home price.”

Looking ahead, Cooperrider cited worker shortages as a concern that is likely to continue in 2018. “In combination with rising interest rates, this will start to slow production,” she stated.

The construction component, which comprises 10% of the composite index, rose 6.7% over the past six months — the strongest six-month period since 2010.

Joe Picoraro, vice president of PC Construction Co., reported that PC's tracking and pursuit of projects mirrors the MEREDA Index's finding that “the residential market has recently shown stronger growth metrics as compared with commercial markets.”

Picoraro reported that residential, commercial and industrial market sectors are likely to see “some level of continued growth” into 2018.

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