

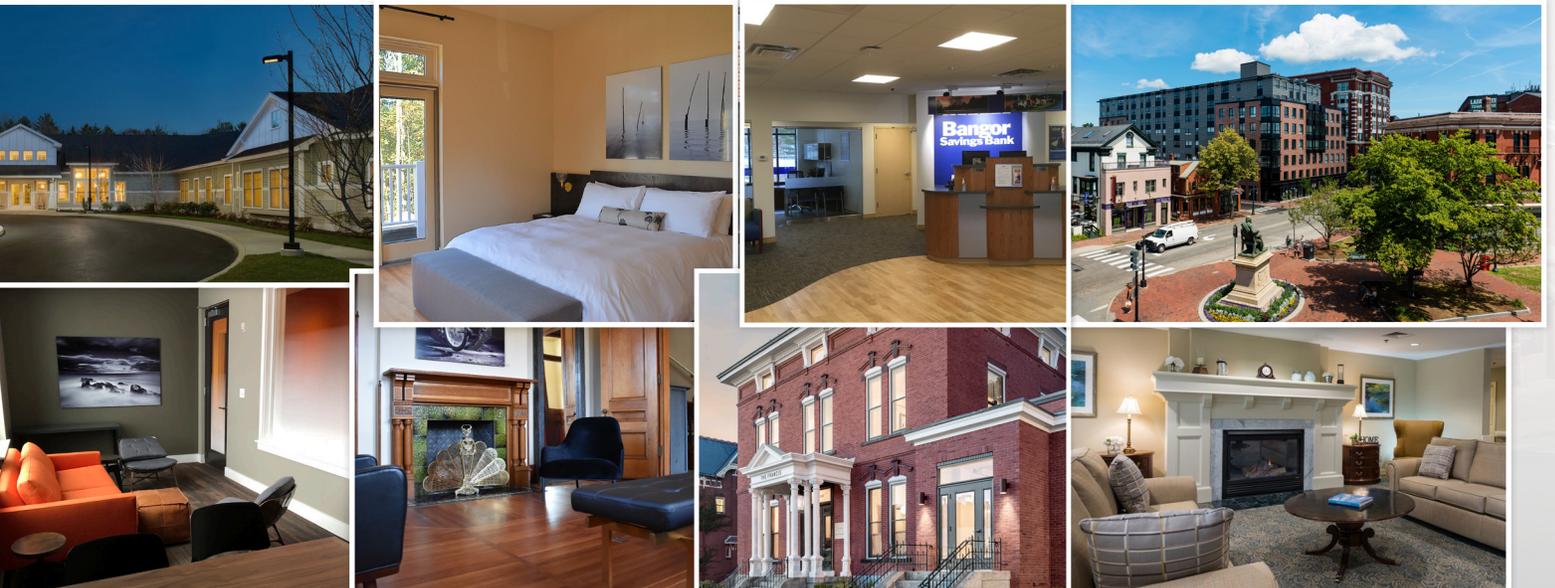
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MEREDA
INDEX

WINTER EDITION

2018

Eaton
Peabody
Attorneys at Law



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MEREDA INDEX

WINTER EDITION 2018

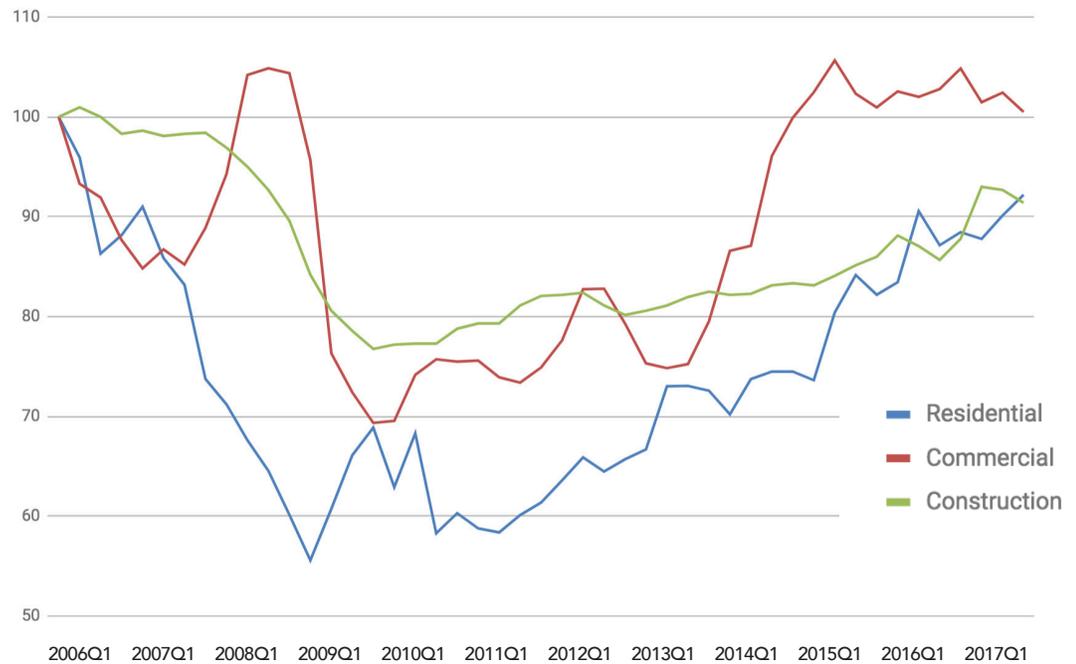
WHAT IS THE MEREDA INDEX?

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 third quarter of 2017.

THE MEREDA INDEX: 96

The MEREDA Index showed a gain of 1.5% over the six months from March to September 2017 and 1.2% over the twelve months from September 2016 to September 2017. There was a very slight drop (0.27%) from the second to the third quarter. Overall, the real estate markets in Maine show continued growth, but there are important differences between the residential and commercial markets.

Major Components



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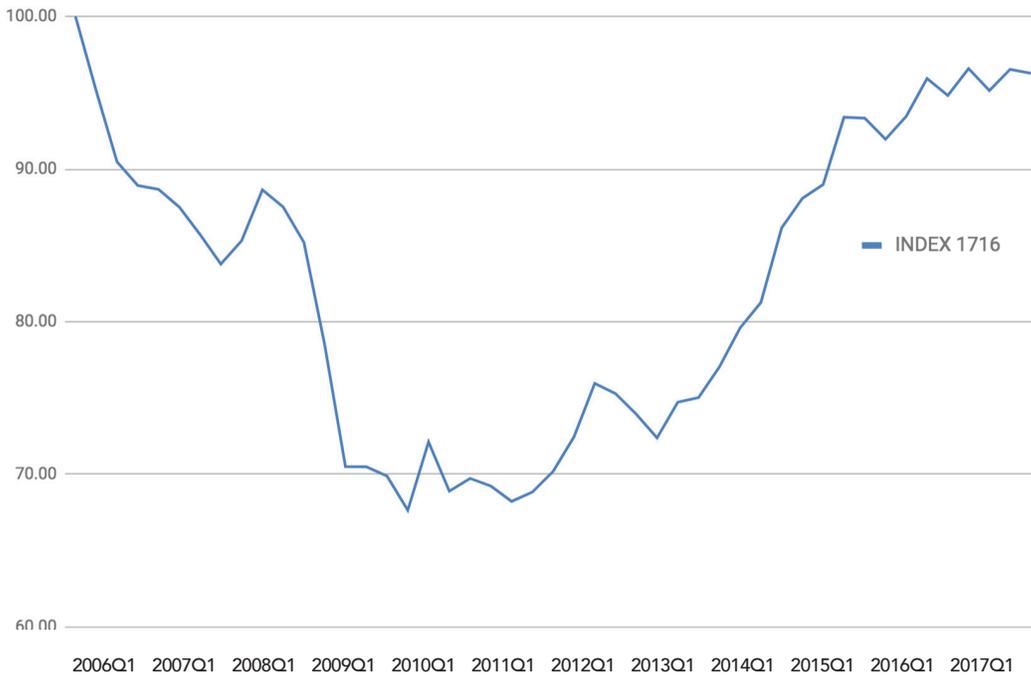
Maine Real Estate &
Development Association

Supporting Responsible Development

INTRODUCTION

It will be a surprise to no one that The MEREDA Index hit its peak during the middle two quarters of 2017, coming in a few tenths of a percentage higher than the last publication. At MEREDA, we believe strongly in responsible real estate development that grows our economy and our communities in beneficial ways, and this performance indicates success in those areas. This rock star showing is even more noteworthy since real estate has quickly become the second most important driver of Maine's GDP, behind only healthcare, according to the U.S. Bureau of Economic Analysis.

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Commercial real estate returned to pre-recession levels in 2014, but has stayed fairly stable since then. I would argue that there is robust room for growth in this area, especially in up-and-coming downtowns outside of Cumberland and York counties and in population-rich suburbs, which have yet to see the same growth as in other parts of the state.

With its largest gain in recent history, on top of steady growth for a number of years, many will be surprised that the residential component did not grow by even more. My guess is that some of this is due to the economic reporting lag, and that much of the late-fall activity will be reflected in the next edition of The MEREDA Index. That said, while growing steadily, it's fair to point out that the residential component still has not recovered to pre-recession levels, mostly because of new residential construction is nowhere near where it could (and should) be.

In fact, construction employment, which includes both new development and redevelopment in residential and commercial, though seeing growth, remains almost static from a bird's eye view perspective. Growing capacity on the construction side of our industry will be the key to maintaining our economic trajectory. The demand exists, and this segment would likely grow more robustly if more skilled workers were available. I feel strongly that finding tangible ways to support workforce development for prospective tradespeople throughout the state ought to be the hallmark for MEREDA over the coming 12 months.

My thanks, as always, to Dr. Charles Colgan for tabulating such an insightful analysis of our industry. To our sponsors, who make this report possible, and our industry experts, below, whose anecdotal insights add nuance and subtleties: thank you for being such an important part of this economically vital engine in Maine. And to you, our members: enjoy; please let us know if MEREDA can be of help as you plot out your next deal.

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PAUL PECK, J.D.

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

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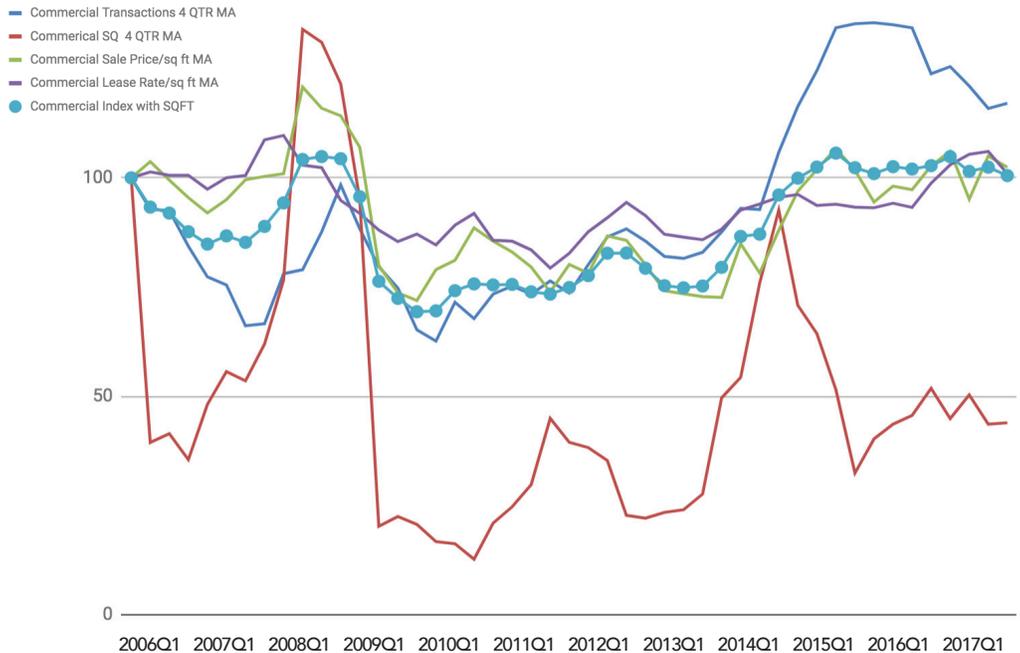
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THE COMMERCIAL COMPONENT: 101.51

50%
COMPOSITE
INDEX

Overall, the commercial market was down by 1.6% in the six months to September and 0.4% over the September to September period. The declines were led by a drop in commercial transactions based on a four-quarter moving average index (down 5.5% over March to September) and in square feet of commercial transactions (down 15.2%). The six-month metric for commercial sales also declined by 0.4%, but there was a 2.2% rise in commercial rental rates on a square foot basis. The commercial component overall still stands above the pre-recession levels (on all measures except square footage). 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.

Commercial Components



The commercial component shows a modest retraction relative to the prior year but at 100.51 is still reflective of an active market and remains above the 2006 first quarter measure that forms the benchmark for the Index. Capital has remained plentiful and it continues to be a “borrower’s market” with interest rates that have remained incredibly low when viewed from a historical perspective and a lending environment that remains competitive.

At first blush, the decline in the commercial component is a bit surprising given the level of activity experienced on the financing front. However, in retrospect, 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,” so would not markedly impact economic indicators for another six months or so. In addition, refinance activity continues to be robust, as owners seek to take advantage of the interest rate environment to position properties for the long term. This desire to hold properties may be influencing the commercial transaction market by reducing the amount of available inventory in the marketplace. There are still a number of active buyers looking for investment real estate and quality assets seem to move quickly when they do become available for sale.

Property owners have also been using refinance transactions to reposition properties and complete improvements that seek to add value through increased rents and/or longer lease terms. This activity may be having a modest impact on the one area of the commercial component that reports a positive for this period: the commercial lease rate component. A more prominent impact on the commercial lease rate component likely stems from relatively low vacancy rates and a measured approach to new development.

Looking forward, there are some possible headwinds in the commercial market, primarily in the form of rising interest rates. 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 amongst banks and other lending institutions for quality real estate transactions.

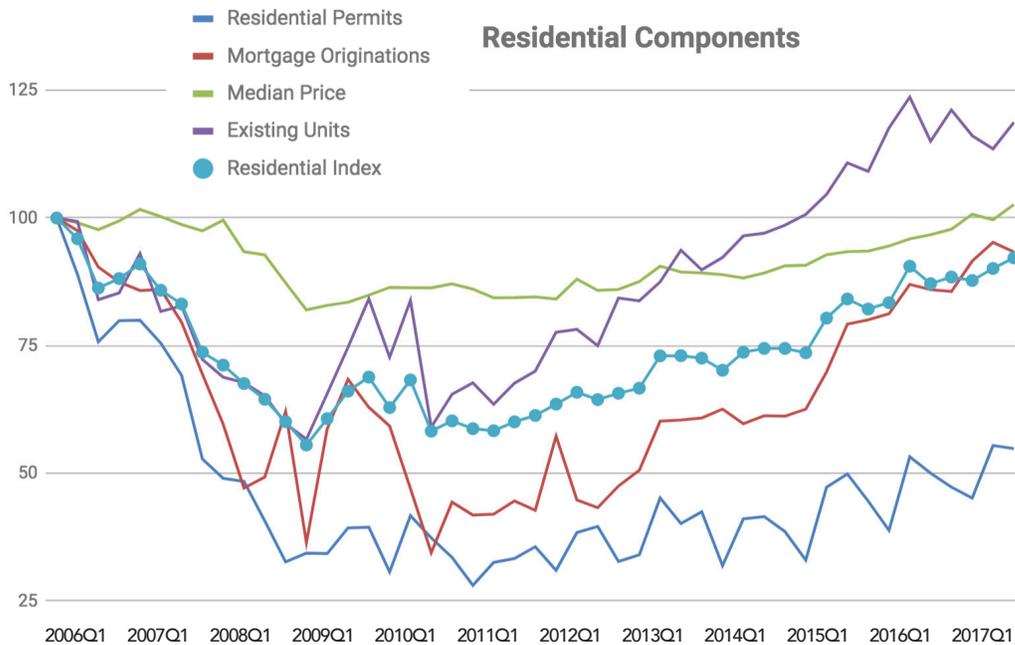


SHAWN MCKENNA
Vice President of Commercial
Banking, Bangor Savings Bank

THE RESIDENTIAL COMPONENT: 92.19

40%
COMPOSITE
INDEX

Growth in The MEREDA Index was driven by the residential component, which saw a 5.8% growth over March to September and 5.2% growth over the October to September period. Permits for new single and multi-family construction are estimated to show strong growth of over 20% on a seasonally adjusted basis from March to September. The metrics for mortgage originations (8.6%) and median price (6.1%) also showed strong growth. Residential unit sales was also positive, up 3.2%.



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In Maine, we have one of the highest homeownership rates in the country, and also some of the nation's oldest housing stock. Housing cost burdens are also high, both for homeowners and for renters. This combination has fueled awareness about affordability and an increasing demand for new construction of energy efficient apartments and homes statewide. Maine attracted national attention in 2017 for producing two of the country's first commercial scale, multifamily projects certified to the Passive House U.S. energy standard -- one in Brewer by Community Housing of Maine and one in Portland by Avesta.

Maine municipalities of all sizes have recognized housing production as an economic driver, and engaged in serious efforts to attract and support new development. As a developer, it has been a new experience for me to have active support from city staff and encouragement from the community. This was so important in 2017, when uncertainty around pending tax reform ground production of new affordable rental housing to a halt statewide.

Demand for housing in urban centers continues to build, and cities across the nation have been experiencing renewed investment. 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.

Portland's adoption of the India Street Form Based Code encourages taller, more dense development of urban dwellings along the city's arterials, replacing a patchwork of zoning districts and imposing requirements related to form, character, and design of buildings. The resulting new buildings will play an important role in shaping Portland's modern skyline, and creating the density necessary to ease pricing pressure.

While the larger condominium buildings in the India Street neighborhood are highly visible, condo growth in Portland has not been excessive, according to the City of Portland's 2017 Housing Report. In the nine years between 2008 and 2017, 492 residential units were created, 55 per year on average. Of these, just 9%, or four per year on average, were units created by conversion from another residential use.

Almost all projects under construction in 2017 experienced a manpower shortage in some form impacting the construction process, timeline, and budget. The competition for skilled labor will continue in 2018 and beyond. In combination with rising interest rates, this will start to slow production.



ERIN COOPERRIDER
Development Director, Community
Housing of Maine
Principal, The NewHeight Group

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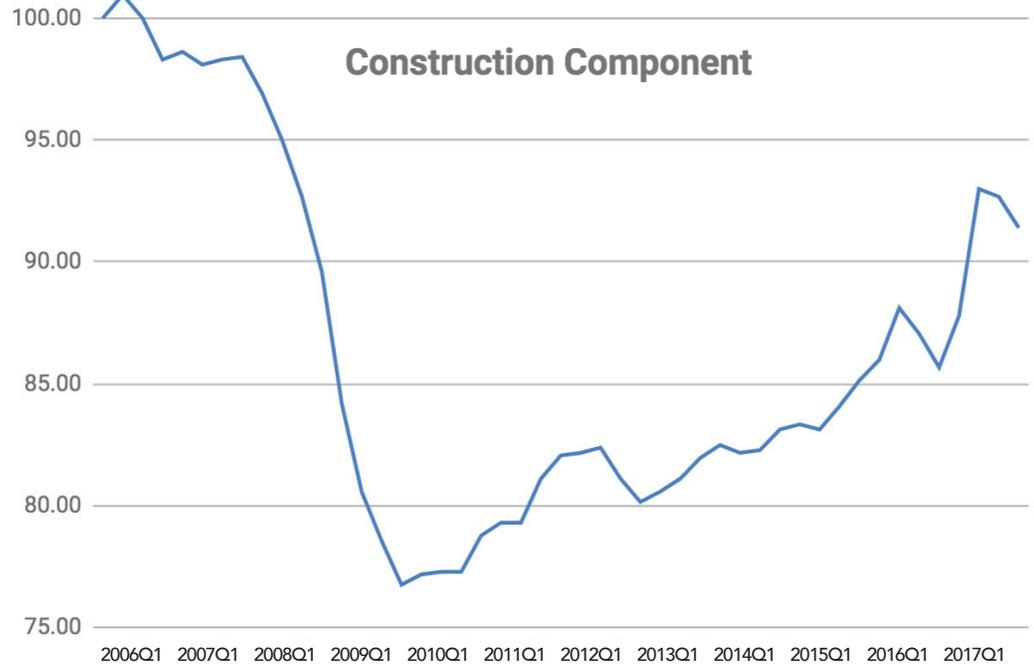
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THE CONSTRUCTION COMPONENT: 91.4

10%
COMPOSITE
INDEX

The construction employment component has grown consistently over the past six months, rising 6.7%. This is one of the strongest six-month period for this indicator since 2010.



PC Construction Company has been constructing projects in various Maine market segments since the 1960s, and it is no surprise to any of us that this is one of the strongest six-month periods for this sector since 2010. Sustained favorable economic conditions amid the post-recession decade are continuing to fuel projects and developing initiatives in most sectors. In fact, we are seeing and pursuing a myriad of projects all the time lately -- including large-scale residential, new and renovated commercial projects, primary and secondary educational facilities, and manufacturing and healthcare facilities.

As The MEREDA Index suggests – and as PC has seen in our tracking and pursuit of projects – the residential market has recently shown stronger growth metrics as compared with commercial markets. This observation, however, needs to take geography into consideration, as there have been several concentrated areas of commercial projects which may boost that market sector into 2018.

This strong and sustained growth is keeping construction employment well utilized. We know, however, that subcontractors are challenged with finding qualified tradespeople, and we have seen several initiatives and developments to counter and address these needs. Such efforts include training programs for young people considering a trade profession, programs and processes to improve construction efficiencies, prefabrication techniques, and extended efforts to bring construction personnel back to Maine. Even with these forward-thinking efforts and initiatives, continued low unemployment in the residential and commercial construction market sectors looks very promising into 2018.

Ultimately, construction employment responds to the overall summation of individual market sectors and geographical draws. With the various residential, commercial, and industrial market sectors in some level of continued growth mode into 2018, and with the continued growth in construction markets around eastern Massachusetts, we will most likely see low construction unemployment rates and an ample quantity of construction projects into 2018. This may be positive news in one respect, but it may also result in increased construction costs and schedule ramifications, both of which will tend to find a balance over time.



JOE PICORARO

Vice President, PC Construction Company

ABOUT MEREDA

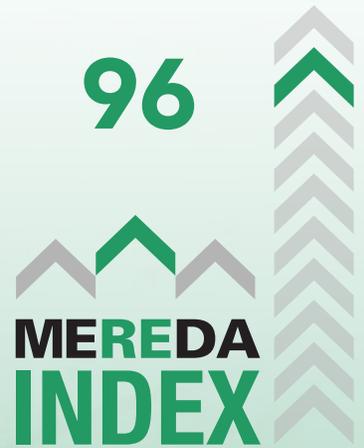
The Maine Real Estate & Development Association (MEREDA) is an organization whose mission is to promote an environment for responsible development and ownership of real estate throughout the state. MEREDA accomplishes its mission through legislative advocacy, regulatory oversight, sponsorship of programs 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 325 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.

TECHNICAL NOTES

All data is either quarterly or monthly, converted to quarterly and then either seasonally adjusted or trended using moving averages 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, 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.



WINTER EDITION 2018



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