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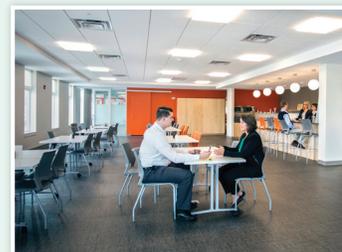
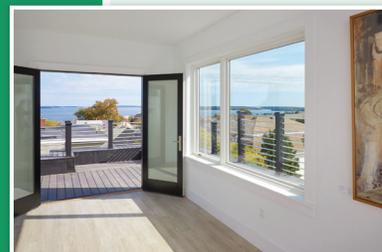


MEREDA
INDEX

WINTER EDITION

2019

Eaton Peabody
Attorneys at Law



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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 2018.

THE MEREDA INDEX: 103.1

The MEREDA Index was little changed in the last 6 months, declining by 0.2% since the first quarter of 2018 and by 0.3% over the twelve months since the third quarter of 2018. The small changes in the overall Index are the result of growth in the residential and construction components offset by declines in the commercial component.

MAJOR COMPONENTS



SHELLY R. CLARK,
VICE PRESIDENT OF OPERATIONS

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Maine Real Estate &
Development Association

Supporting Responsible Development

INTRODUCTION

In 2013 MEREDA decided to invest in an annual study to measure various components of the real estate industry in Maine and to combine the results into one number that we call the MEREDA Index. When we elected to embark on this project, we understood that this was information that over time would become more meaningful, as a way to compare and chart the progress of the real estate industry in Maine.

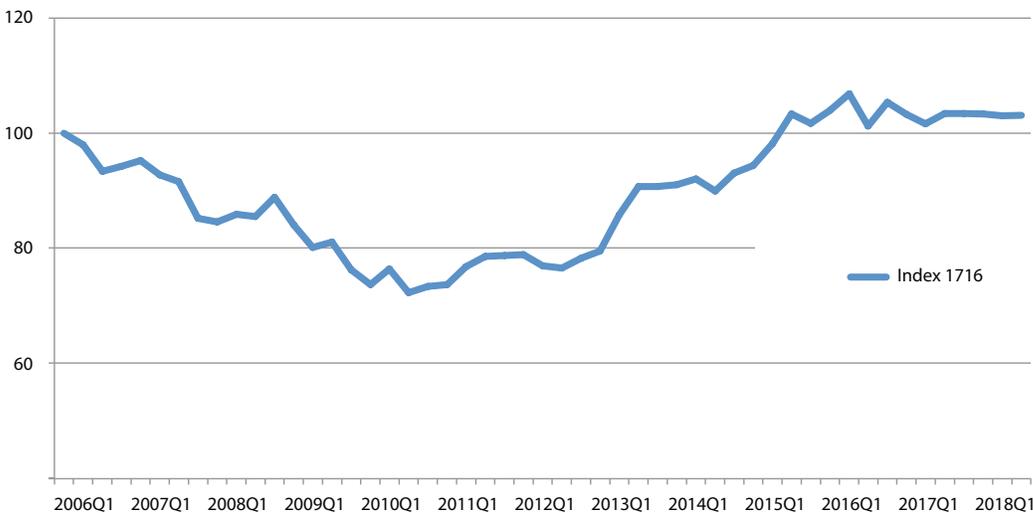
We are now in our 5th year of preparing the Index, and the information and analysis provided by the Index is proving to be more and more useful and informative each year as we compile and track data from over 10 years. The first several years of computing the Index were marked by the impact of the great recession and it has taken quite some time for the industry to return to and exceed 2006 levels, our benchmark year.

This year shows an overall decline in the Index by a small amount, which is probably a good sign of a gradual softening following several years of robust growth. However, the individual components of the Index tell the real story, between continued increases in the residential market, declines in the commercial market and continued price increases in the cost of construction, driven primarily from a workforce shortage that undoubtedly has an impact across all sectors.

To get more of that real story, we asked our commentators to share their 'boots on the ground' perspective for their sector so we all can have a deeper understanding of what the nine data points of the Index demonstrate not just for the real estate industry, but also for everyone in Maine. They put the Index into perspective and address how the real estate market is affecting each segment, and impacting their work and their world. Relating the broader market data to individual experiences and local variations is part of what makes this project so interesting.

On behalf of the MEREDA Board, I'd like to thank Dr. Charles Colgan for tabulating such an incisive analysis for us. Thank you to Shelly Clark, who makes everything happen at MEREDA. And thank you to our industry experts for their thoughtful commentary and to our sponsors who make this report possible. Lastly, thank you MEREDA members for your support and for your part in supporting responsible development in Maine.

MEREDA INDEX



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GARY VOGEL
PRESIDENT OF THE BOARD, MEREDA
ATTORNEY
Drummond Woodsum

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MEREDA INDEX

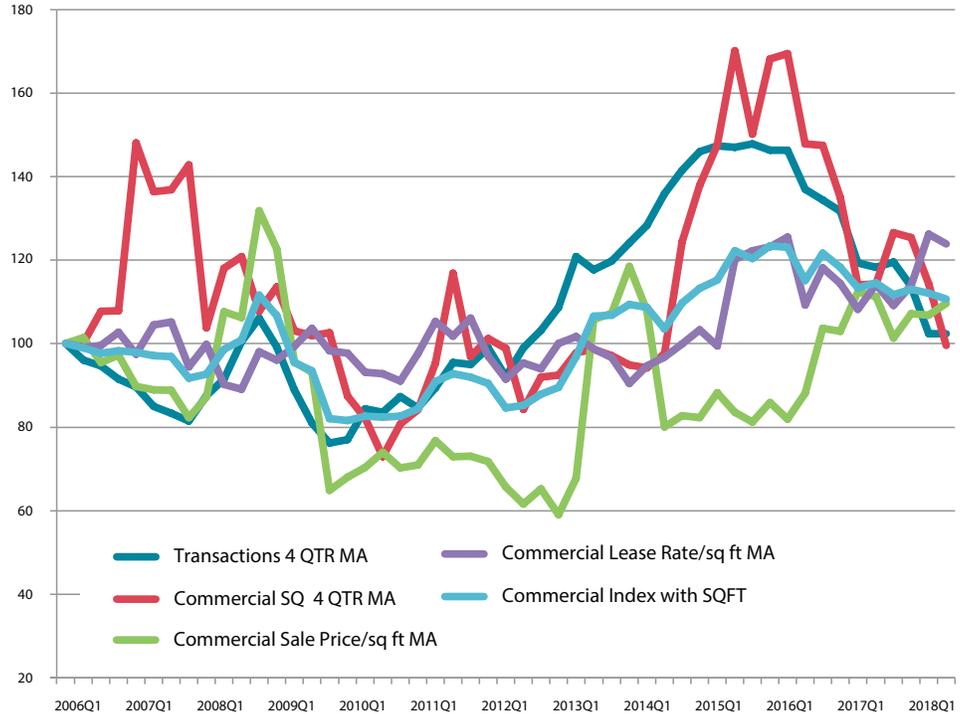
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THE COMMERCIAL COMPONENT: -2%

50% COMPOSITE INDEX

The commercial market component recovered to pre-recession levels in 2013 and peaked in the second quarter of 2016. Since then the volume of transactions and the total volume of building square feet leased and sold has been declining. Over the past six months, these have declined 10% and 20% respectively. [See technical notes] However, the per square foot lease and sales price indexes have showed continued growth over the past six months, the former Index up 2.4% and the latter up 8.7%. Overall, the commercial component declined 2% over the past two quarters.

COMMERCIAL COMPONENTS



The commercial component continues to show great energy even with the slight decline measured in the Index. While the bulk of activity is in southern Maine, the pockets of activity throughout the state are equally interesting. One example is the investments being made in downtowns around the state. Augusta's Water Street has a new brewery-restaurant and a pending 31,000 square foot mixed-use renovation. Waterville is undergoing a major transformation driven by Colby College, donors, and investors, and is emerging as a hub for Mid-Maine economic development.

Pent-up demand is driving some markets. Commercial brokers in Bangor report having their best year ever as businesses and non-profit organizations expand into larger facilities with buyers ready for their vacated properties. Waterfront and entertainment development continue to increase consumer traffic and downtown liveliness in Bangor as well.

Out of state developers are active in Maine. A 104,000 square foot office building is under construction in Augusta by an out of state developer to lease to Department of Health and Human Services. On Lewiston's riverfront, a 240-unit market-rate, single bedroom, efficiency apartment development is proposed by an out of state developer and targeted to hospital employees. A HUD grant will focus on planning the Tree Street Redevelopment Area to replace 1940s properties with mixed-income housing.

We are also seeing a proactive and collaborative approach toward development in some rural parts of Maine. In Franklin County, 22 towns collaborated to solve the Broadband issue. Local business people in Rumford pooled resources and are building a 63-room Best Western hotel after a fire destroyed the only motel in town.

In Brunswick, the Tech Place incubator is home to 37 start-up businesses in a 97,000 square foot building. Tenants share resources such as a bio-med lab, 3D printer, and wood shop. One tenant has already grown and moved into two buildings. Midcoast Regional Redevelopment Authority believes this model can transform places where machinery exists, like paper mill buildings, into maker's space.

Looking ahead, the newly created Opportunity Zones have emerged as a tool to stimulate development across the state. The towns of Paris and Rumford are entirely in Opportunity Zones and eager for investments, as are other municipalities. It will be exciting to see what projects will be on the docket because of this new incentive.

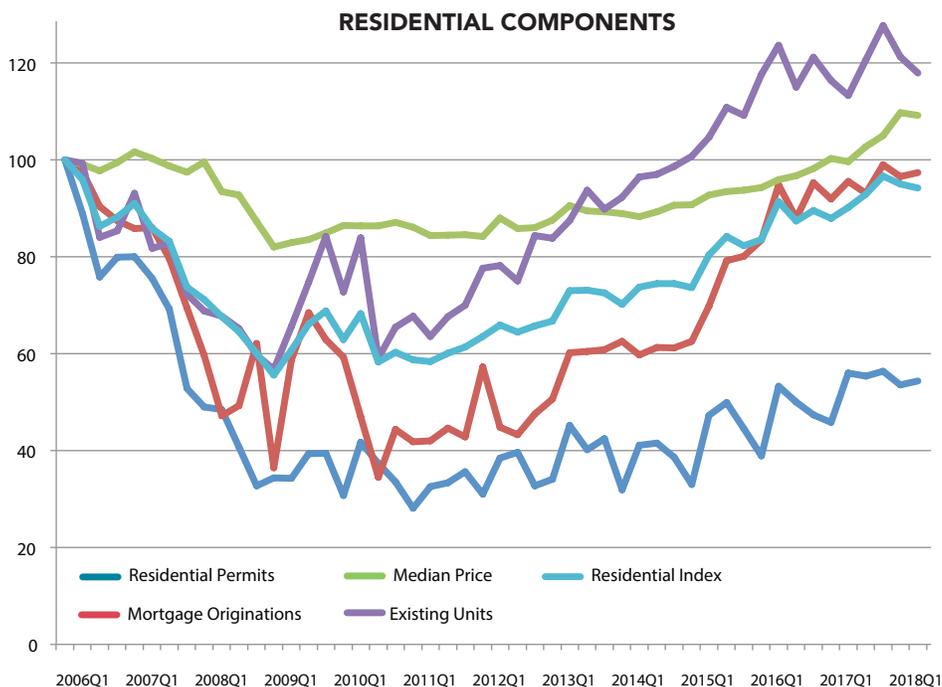


ROXANE COLE
MANAGING MEMBER &
COMMERCIAL BROKER
Roxane Cole Commercial Real Estate, LLC

THE RESIDENTIAL COMPONENT: +1.3%

40%
COMPOSITE
INDEX

Sales of existing houses and permits for new residential construction continued to grow at 1.9% and 2.3% respectively over the past two quarters. Mortgage originations also grew apace with sales of existing units at 1.3%. But the seasonally adjusted median price showed little change through the first three quarters of 2018, falling 0.5% from the first to second quarter and rising 0.4% from the second to third. Overall, the Index for the median price fell 0.2% over the past two quarters. The net effect of these changes was a rise in the residential component of 1.3% over the past 6 months.



“2018 was a very busy residential market. We saw a surge in sale prices across the state, with sharp increases in Greater Portland and many southern coastal communities. I’ve been in the business for close to 15 years and the strength of the 2018 market surprised me. Home sale prices across Maine and particularly Cumberland County increased more than anticipated. For example, multi-family prices in the city of Portland were up 25% in Q1 and Q2 over the same time period last year!”

It’s all about location, location, location. Maine has a great brand, and we are lucky to live in a part of the country that is so desirable right now. I like to keep tabs on what towns, neighborhoods, or even streets, seem to be most popular with buyers. Then I take notice of the location buyers are coming from. For example, Portland has seen a lot of recent buyers from places like Brooklyn, NY, and San Francisco, CA. I like to get a sense of what the prices are there, what those buyers are looking for in their new Maine home or neighborhood, and why they decided to move here. The market in Portland has been influenced by a lot of recent media attention about its amazing restaurants and quality of life. Attention like this can bring new buyers and create urgency in the market.

While prices seem high, particularly in Greater Portland, I still think it’s a great time to invest in Maine’s urban areas. In Portland, we’re seeing a re-urbanization, with more people choosing to live in town and companies like WEX and Vets First Choice building new headquarters. I think this is just the beginning, and the Portland we have today will look much different in 10 years. And it’s not just Portland, smaller cities and towns like Westbrook, Yarmouth, Brunswick and Biddeford, for example, are investing in their infrastructure, business community and town centers as well. This “hyper local” movement draws in businesses and amenities that attract buyers and increase values. However, this will mean that while some towns have a boom, others may see a bust.

Looking ahead, I don’t see prices going down. Inventory will remain low in the beginning of the year as those priced too high and unable to sell in 2018 come off the market until the spring. This lack of inventory will create more urgency for buyers, increase prices and lead to another incredibly busy start to the year.”

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TOM LANDRY
BROKER/OWNER
Benchmark Residential &
Investment Real Estate
OWNER
CornerStone Building &
Restoration

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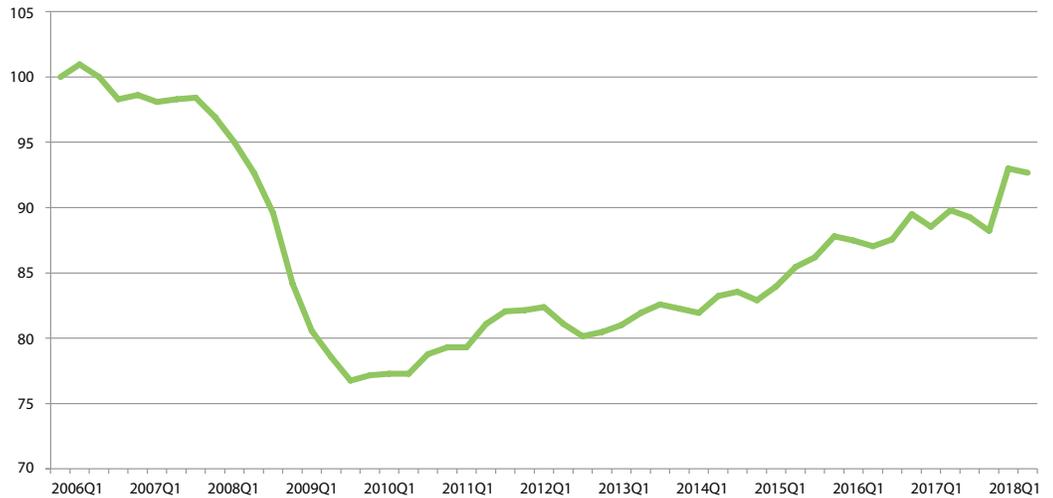
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THE CONSTRUCTION COMPONENT: +5.1%

10%
COMPOSITE
INDEX

The construction employment component also showed strong performance over the past six months up 5.1%. At 29,100, construction employment in Maine is still 2,300 below the pre-recession peak of 2006Q1, but 5,000 above the lowest level in the recession in 2009Q4.

CONSTRUCTION COMPONENT



The construction industry continued to thrive during Q2 and Q3 of 2018. As interest rates remain low, the hot commodity is Maine's construction workforce. I would equate the current pace of the construction industry to that of a startup company. Opportunities arise faster than there are people available to perform the work. Contractors are turning away work because the projects have such accelerated timelines for the work to be under contract and complete. As this pace of construction continues, contractors are booking up into and beyond 2019.

I see an abundance of projects in various market sectors funded by both private equity and subsidized funding resources. The residential market has continued to thrive with the majority of the market centered around Southern Maine. Portland, specifically the peninsula, continues to push the envelope on price point. A desirable location allows plenty of room for new development in the high value residential market. Although central and northern Maine are also recognizing the positive impacts of the economy, the market opportunities are different and the cost of construction limits project development outside of high value areas.

Every project, regardless of its location, is faced with the same increases in construction costs. These increases are due to labor shortages and rate increases, lack of competitive subcontractor pricing, increased material costs due to increased shipping costs, labor costs and the threat of tariffs. These costs are only being offset by the cost of borrowing money relative to the appraised market value. In areas of the state where the appraised value has not caught up with the cost of construction, projects are being downgraded or owners are forced to self-fund portions of the project to meet the loan-to-value (LTV) ratios the banks require.

Looking ahead, we need to embrace innovation in construction. The rate at which technology is surpassing current practices is ever accelerating. We can build smarter through advances in prefabrication and modular construction, but this generally only reduces onsite construction timelines. There are more opportunities for innovation that will help us reduce construction costs and encourage development.

We have a great workforce in Maine, and while many of us are devoting time to developing solutions to the skilled labor shortage we still need to promote the importance of trades at the youth level. I also feel we need to advocate for the quality of life that Maine can offer our young emerging workforce.



TIM HEBERT
OWNER
Hebert Construction, LLC

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 340 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 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.

The source of all data for the commercial Index has been commercial real estate information maintained by The Boulos Company, which has generously made the data available for purposes of the Index. In 2018 The Boulos Company transitioned data management vendors to a new supplier, resulting in inconsistencies between the old and new data sets. In order to minimize the effect of these inconsistencies, the commercial component was completely recalculated from 2005 through the third quarter of 2018. The absolute values of the Index have been altered, but the trends measured by the new data are fundamentally consistent with the old data set (Regression $R^2=.82, p<.001$).

Charles S. Colgan is Professor Emeritus of Public Policy & Planning in the Muskie School of Public Service at the University of Southern Maine, where he chaired the Graduate Program in Community Planning & Development. He is also Director Emeritus of the Maine Center for Business & Economic Research at USM. He served 12 years in the Maine State Planning Office including positions as Maine State Economist and director of the Maine Coastal Program. He currently serves as Director of Research at the Center for the Blue Economy at the Middlebury Institute of International Studies at Monterey in Monterey, CA. He received his BA from Colby College and his PhD in Economic History from the University of Maine.

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