



THE MEREDA 2020 INDEX

A Compilation of 2019 Data and
Review of the First Quarter of 2020

This Edition of the MEREDA Index is Underwritten by:

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Pictured on Front Cover: Recipients of MEREDA's 2019 Notable Project Award

105.91

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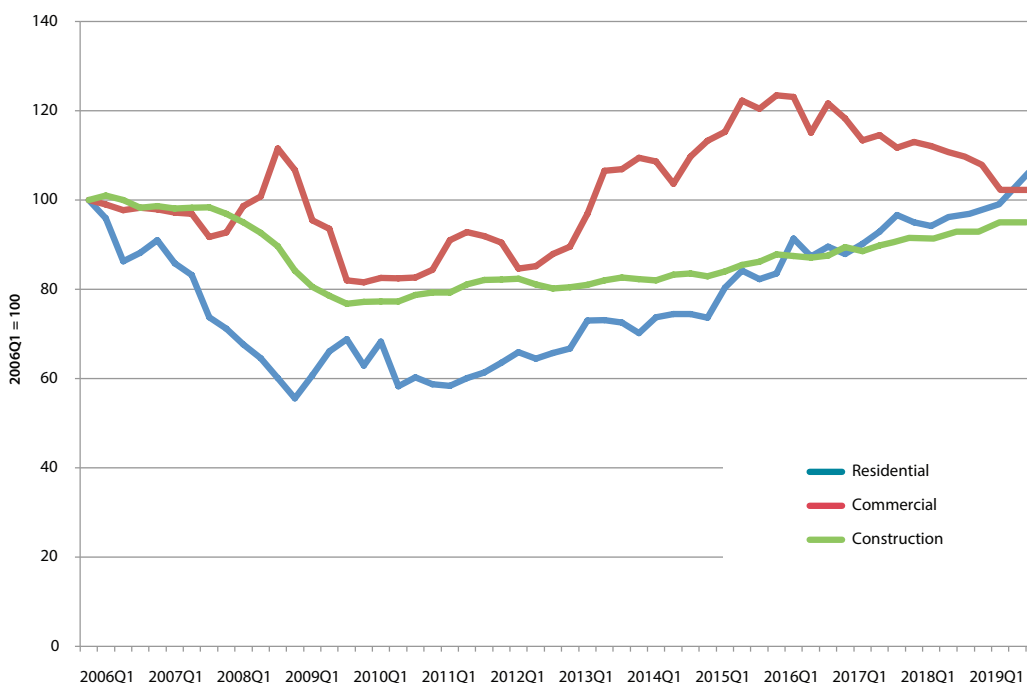
WHAT IS THE MEREDA INDEX?

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 end of 2019. It also provides a preliminary look at 2020 based on first quarter data.

THE MEREDA INDEX FOR 2019: 105.91¹

The annual average of the index in 2019 grew by 2.2% over the annual average of 2018. The residential real estate portion of the index grew by 5.3% over 2018. The annual average of the commercial index was largely unchanged. The construction employment portion of the index showed slow but consistent growth throughout the year, up 2.8% year over year. The latter part of 2019 was generally stronger for commercial real estate than the first part, and modestly stronger for residential real estate (up 1% Q4 over Q1) and construction employment (up 1.4% on the same basis).

MAJOR COMPONENTS



*See the Special Note in the Technical Notes for information about data used in this edition of the Index.



**SHELLY R. CLARK,
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Maine Real Estate &
Development Association

Supporting Responsible Development

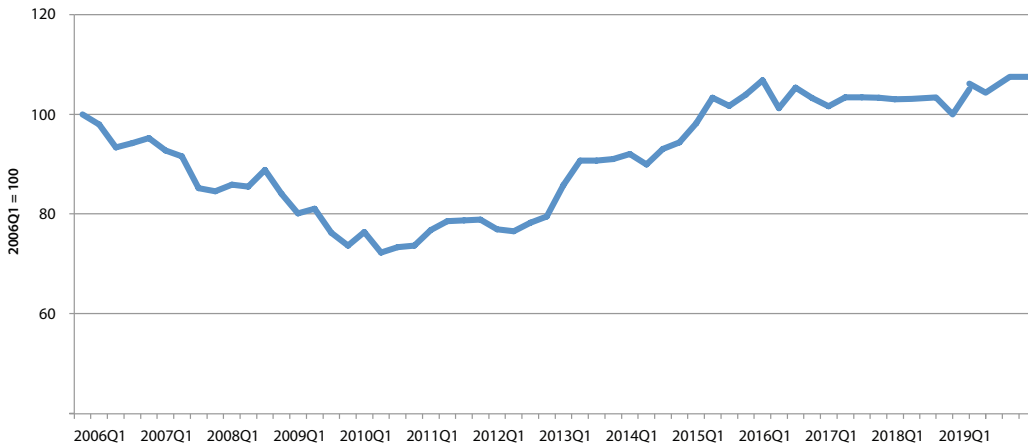
INTRODUCTION

Eight years ago, 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. We call that number the "MEREDA Index." When we elected to embark on this project, we understood that the Index was information that would become more meaningful over time, as a way to compare and chart the progress of the real estate industry in Maine.

The first Index was prepared in 2012, and included information going back to 2006, which we treated as the benchmark for the Index. The first several years of computing the Index were marked by the impact of the Great Recession. We are now in our 8th year of preparing the Index, and the information and analysis provided by the Index is proving to be extremely useful and informative--not only by showing the relative performance of the various components of the real estate industry that comprise the Index components, but also as a way of tracking the trend lines for each component of the Index.

This year marks the first year that we have revised the timing of the Index so that an entire calendar year is presented when the Index is unveiled. The 2020 Index contains a measurement and presentation of the real estate market in Maine, and its various components for all of 2019. In years past, MEREDA would prepare an Index through the third quarter of the preceding year to present at our annual January Forecast Conference; MEREDA would then produce a second edition

MEREDA INDEX



with a full calendar year of data. The Index is now presented once a year in the spring, with an entire set of data encompassing the previous calendar year.

The 2020 Index shows the generally strong real estate market that prevailed in Maine in 2019. As everyone knows, however, the world has changed in dramatic ways since the end of 2019, and real estate will not be spared the impact of the Coronavirus. As a result, this 2020 Index (measuring 2019 activity) will be particularly useful to measure the impact of the Coronavirus on the various segments of the real estate market in 2020, and the impact of the shutdown in numerous components of our economy.

The year 2020 will undoubtedly be a watershed year, accelerating certain trends in real estate, and showing the impact on various segments of the real estate economy. Because of the enormous changes that have occurred in a very short period of time (beginning roughly in March 2020), and because of the relevance of the 2020 data showing the initial impact of the virus, we have asked the man behind the Index, Dr. Charles Colgan, to include some First Quarter 2020 data as a supplement to the 2020 Index.

To get more of a feel for the actual real estate market, we asked our commentators to share their 'boots on the ground' perspective for their sector. Their commentary gives a deeper understanding of what the nine data points of the Index demonstrate--not just for the real estate industry, but for Maine's entire economy. No doubt we will have a lot more to learn about the fallout of 2020. With the impact of the Coronavirus changing daily, the commentary from our presenters is extremely useful as we all try to gauge what the market conditions will bring, based on where they were.

On behalf of the MEREDA Board, I'd like to thank Dr. Charles Colgan for tabulating such an incisive analysis for our Members. Special thanks for his prompt work to include some First Quarter 2020 data so that we can use the Index report to help make decisions during these uncertain times. Thank you especially to Shelly Clark, Vice President of Operations from MEREDA, who truly makes everything happen. 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.

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GARY VOGEL

PRESIDENT OF THE BOARD, MEREDA
ATTORNEY
Drummond Woodsum

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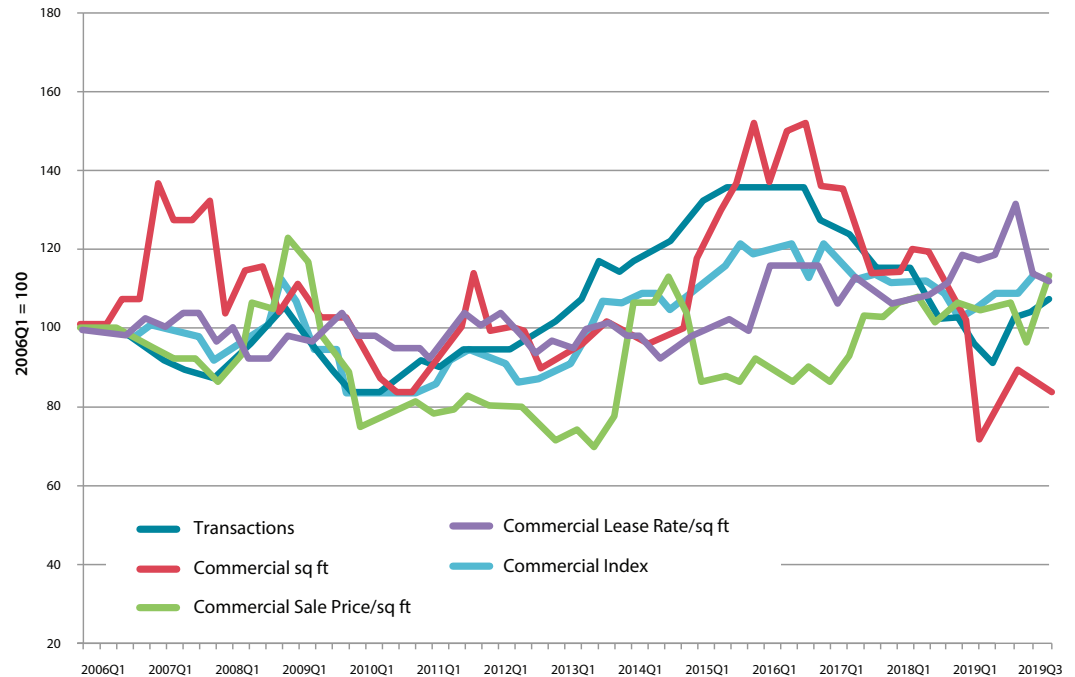
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THE COMMERCIAL COMPONENT: 109.7

**50%
COMPOSITE
INDEX**

In 2019 the commercial market experienced growth across all sectors. Our downtown Portland Class A office market, with nearly 2.2 million square feet of space, finished the year with an all time low vacancy rate of 0.4%. The industrial sector also enjoyed a historically low 1.84% direct vacancy rate. Tenants and buyers in the office and industrial markets had a difficult time finding available product, which triggered several construction projects.

COMMERCIAL COMPONENTS



Downtown Portland was ground zero for office, hotel, and multifamily projects. WEX moved to its new headquarters location on Thames Street, Covetrus inked a 270,000 sf lease on Newbury Street, and several other projects broke ground, including multifamily and hospitality properties.

The Downs project in Scarborough was well underway in 2019. The residential and commercial segments of this exciting development in Scarborough have exceeded developer's expectations, with 126 residential units completed and occupied in record time. Phase II, the commercial sector dubbed the Innovation District, went on the market and several lots have been sold. Buildings are under construction for Q3 2020 occupancy. The Downs also signed deals to bring Edge Sports and WEX to their project.

Another focal point is Waterstone Properties' massive Rock Row project in Westbrook, anchored by a Market Basket. Waterstone has announced plans to bring a Cinemark Theater and a new Element Hotel by Westin to the project. A brew-plex and beer hall, along with additional retail and office space, and a performance venue round out the project.

2019 will likely be remembered as the final boom year of the most recent economic expansion. Time will tell if the lessons we learned about over-leveraging assets in the 2008 financial crash have endured. Maine's lenders and developers have proven to be a savvy bunch, resisting the urge for speculative development while businesses are growing, and lending on fundamentals--not rosy, optimistic projections. Historically, Maine has experienced a somewhat softer downturn during our market contractions than many other northeastern states.

While the duration and depth of the impact of the COVID-19 pandemic on commercial real estate is difficult to predict, there may be some long term positive impacts. Some economists have suggested that residents of dense cities may rethink their urban lifestyle during the COVID-19 pandemic, and Maine's way of life will be an appealing alternative. If so, we may experience population growth which will ultimately benefit all of our commercial real estate sectors. For now, though, our Yankee ingenuity and strong work ethic will prevail through the next few years. They always have.



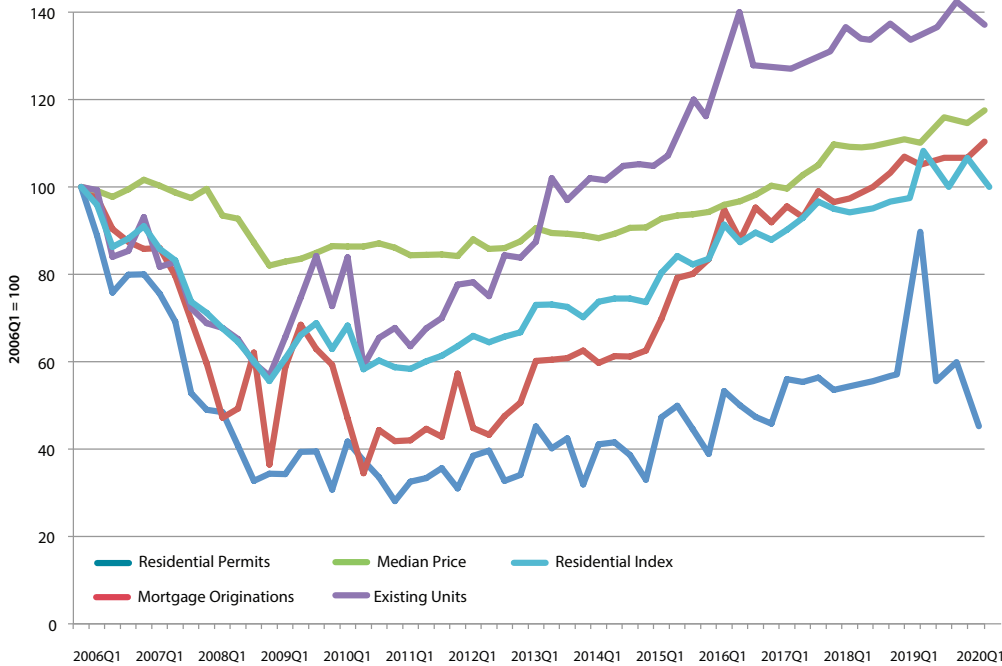
JESSICA ESTES
PARTNER/DESIGNATED BROKER
The Boulos Company

THE RESIDENTIAL COMPONENT: 103.9

40%
COMPOSITE
INDEX

All of the residential components of the Index showed solid growth through 2019, with residential permits up 16.7%, mortgage originations up 7.5%, units sold up 1.7% and the median home price up 3.5%. However, the Residential Permits Annual Average Index is somewhat misleading: it was sharply up in the first quarter of 2019, as there was an apparent wave of optimism about the upcoming building season. However, building permits fell through the rest of the year and ended 2019 16% below year end 2018. There was also a noted slowing in the rate of growth in unit sales after the second quarter.

RESIDENTIAL COMPONENTS



2019 came to a close as another record-setting year in the real estate industry. As we have seen in most recent years, properties that were priced "right" and are well prepared for the market often received multiple offers at or above list prices, as buyer demand remained strong. Portland and Southern Maine markets continue to see out-of-staters coming to Maine for second home purchases, or relocating for an easier way of life. However we are still seeing a fair amount of Mainers moving within their local communities throughout the state; these in-state moves also add to the strength of the residential market. As Portland continues to enjoy national recognition in regards to our cultural scene and overall way of life, people from all over are recognizing that Maine is a hidden treasure. In 2019, the local economy was robust, and local tourism continued to soar.

Looking at the statewide statistics showed a slight increase in units sold, with the overall median sales price growing by 5% over the previous year. When evaluating Cumberland and York counties (which account for a large percentage of residential activity for the State), we saw more than a 5% increase for median sales prices. Both counties also saw a small increase in number of units sold. These are results of high buyer demand and low inventory, which continue to help push real estate values.

Buyer demand continued to outpace inventory throughout the state; residential brokers continued to struggle with this factor over the past few years. New construction remained strong. However, construction costs continued to rise, pushing some buyers to re-focus on existing inventory. Buyers who initially chose downtown residences for proximity to their jobs are being pushed to more affordable areas outside of the metro market. This buyer trend trades walkability for affordability. Many of the new construction condos we are seeing have a substantial number of units under contract before construction is complete. This shows that while some buyers are being pushed out of the downtown markets, demand remains very strong for downtown condo sales.

2020 started strong with the mild winter and near-record-setting months of residential real estate transactions. In the middle of March we entered new territory virtually overnight due to the effects of the coronavirus. There have been a number of buyers and sellers pushing pause. Some seek to limit physical in-person impact; some are anticipating future financial obstacles. On the flip side, many buyers and sellers continue to move forward with current transactions. Some sellers that planned to sell prior to the corona pandemic are continuing with their plans. Realtors are finding new and creative approaches to real estate tours and marketing. The anticipated economic downturn resulting from the coronavirus will likely have an effect upon the Maine residential real estate market. At this point, it is difficult to gauge the severity and duration of the economic downturn and whether the impact will be felt strongly in the real estate market. This much we do know: 2020 will be an adjustment year for the industry as we adapt our daily work habits to accommodate an evolving landscape and market. Agents will continue to work hard for the best interest of their clients and keep up to date on the latest trends and financing options.

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OWNER/BROKER
Landmark Realty

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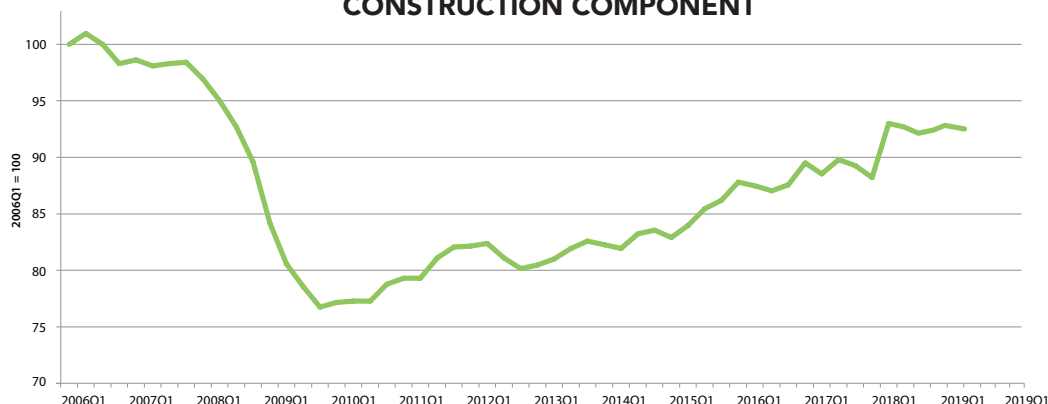
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THE CONSTRUCTION COMPONENT: 95.0

10%
COMPOSITE
INDEX

The Construction Employment Index was up 2.8% in 2019 over 2018, and growth was steady though the year except for a slight dip in the second quarter. With an index value of 95 in the fourth quarter of 2019, the construction employment shows almost a full return to 2006 levels of employment. The construction index is the only one of the major components of the index not to have returned to 2006 levels.

CONSTRUCTION COMPONENT



The 2nd half of 2019 saw a continued boom in the construction sector. There was an abundance of project starts across all market sectors, with housing and hospitality at the forefront. Southern Maine continued to be the focal point of Maine's development activity. Augusta and Bangor had their share of new project starts as well, but not at the volume or density of Portland.

Increased labor demand exerted further stress on the labor supply, driving subcontractor pricing to new highs, and in turn making overall construction costs more expensive. These increased cost demands made smaller projects harder to pencil, and forced developers to use size, scale, and quantity of units to offset the increased construction pricing.

As a result of the aforementioned conditions, there were several projects in the planning and budgeting stages that will introduce specialized construction methods. Specifically, these specialized methods allowed for greater overall building heights, increased floor-to-ceiling heights, and density of footprint. Additionally, several variations to cast in-place concrete construction (a method not traditionally practiced in Maine) were being considered on several projects for the benefits it offers.

The impact of the coronavirus and the resulting economic downturn have not yet severely impacted construction projects, other than the adoption of social distancing practices, since projects underway today have been in the works for quite some time. While some projects are being cancelled or delayed, we are encouraged that we continue to hear about new projects in planning and development. Some developers may desire to get projects underway that may not be completed for a year or more, when the restrictions on doing business should be largely beyond us.

As a relatively small General Contractor/Construction Manager, we are not discouraged by the market conditions that we see in front of us. There are a lot of projects in the pipeline being produced by smart and competent developers. While some of these projects will be delayed or cancelled, others are proceeding. A softening of demand may produce a more stable labor market for the construction sector. We remain cautiously optimistic about the future growth opportunities that lay ahead.

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 component 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.



PATRICK DUCAS
OWNER/PRESIDENT
Ducas Construction

2020: A PEEK AHEAD

The onset of the Covid-19 pandemic has completely upended the U.S. and Maine economies, with highly uncertain consequences. A deep recession is all but certain in 2020, but how long it will last and how the recovery will occur are extremely difficult to predict because the causes of the recession--and the responses to it--lie primarily outside the functioning of the economic system. The crisis began in March 2020 at the end of the first quarter. Data to track the economic changes are just now beginning to become available and the real shape of the downturn will only become apparent beginning with April data.

A look at the first quarter data in the elements of the MEREDA Index shows that a decline is underway, but there was still some strength even through the March data. The Index overall showed 0.7% growth in 2020 Q1 compared with 2019 Q4. The Residential Index declined by 0.4% because of drops in the seasonally adjusted indices for permits and median price. Unit sales and mortgage originations were both up slightly more than 1% each. The Construction Index was slightly up over 2019 Q4 (1.4%), but this was entirely due to increases in sales and rental rates. The number of transactions and square footage of commercial properties both declined. Construction employment was stable throughout the first quarter reflecting the continuation of existing activity.

The large stimulus that has been enacted, with an expectation that more will be needed and (probably) forthcoming, is expected to offset some of the declines in economic activity created by massive social distancing measures. Interest rates have plummeted to near zero levels, making real estate transactions cheaper than they have been in more than a decade, and almost certainly offsetting much of the rise in prices that has created an affordability issue in much of Maine. Whether these offsetting actions are sufficient to significantly reduce the coming decline in real estate transactions is unknown. It is also unclear whether the massive shift to business being done over the Internet will be a significant offset for the real estate industry.

The long-term consequences of the Pandemic Recession are also unknown. With the financial crisis of 2008, there was also great uncertainty, but the economic response in terms of reducing interest rates, increasing the money supply, and fiscal stimulus was clear. There would eventually (and it took much longer than necessary) be a return to an economy that looked a lot like the pre-recession economy. In the current case, the changes are likely to be much larger. In the space of about a month the spatial economy of the U.S. was almost completely reshaped from physical space to cyber space. These changes were already underway, but the acceleration in the shift at a pace that no one would have thought possible is bound to change perceptions of how real estate will be used in the future.

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 nearly 350 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.

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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