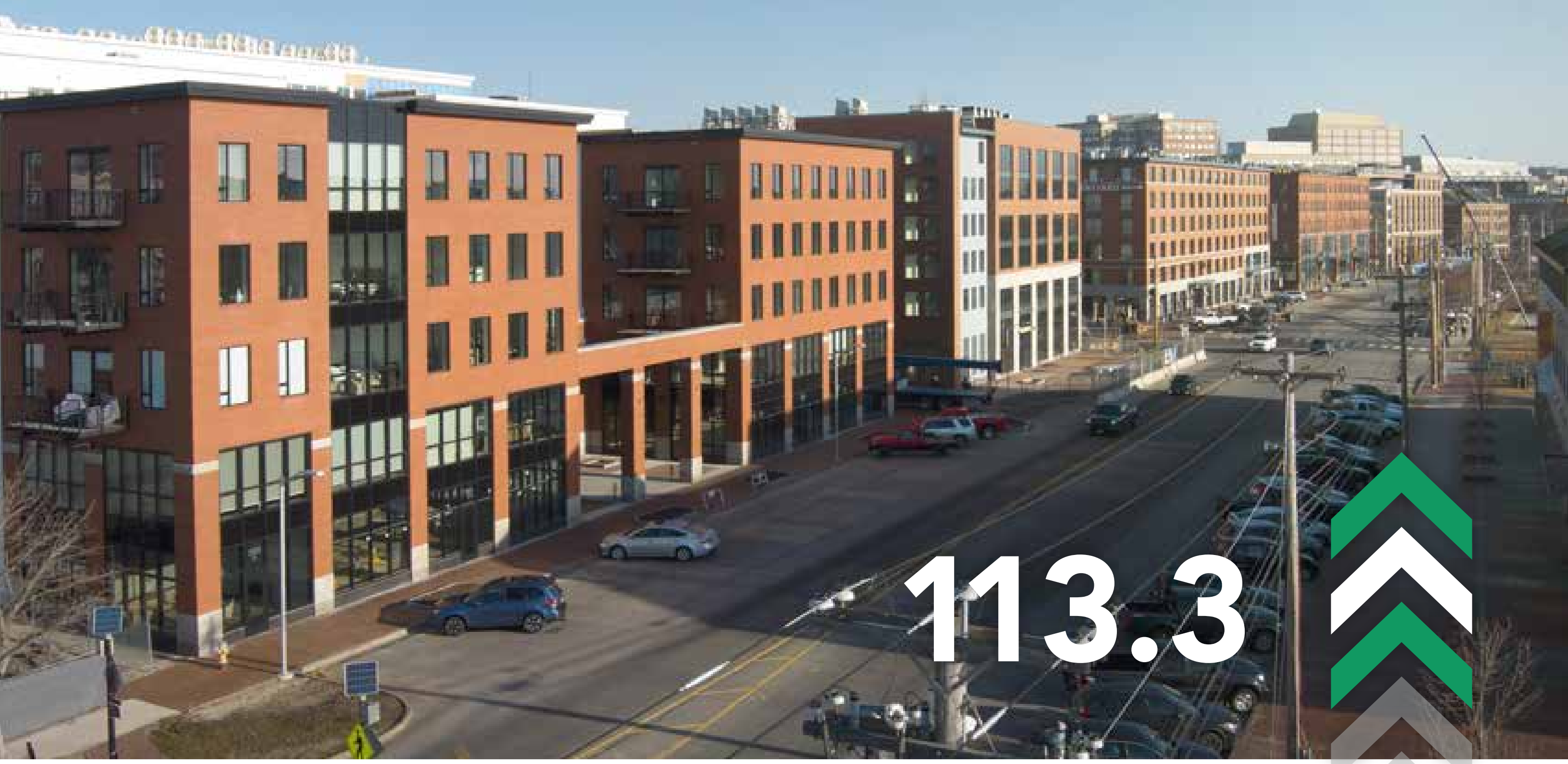

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THE MEREDA 2021 INDEX

MEREDA INDEX

This Edition of the MEREDA Index is Underwritten by:

Eaton Peabody
Attorneys at Law

Pictured on Front Cover: Recipients of MEREDA's 2020 Notable Project Award

113.3

MEREDA INDEX

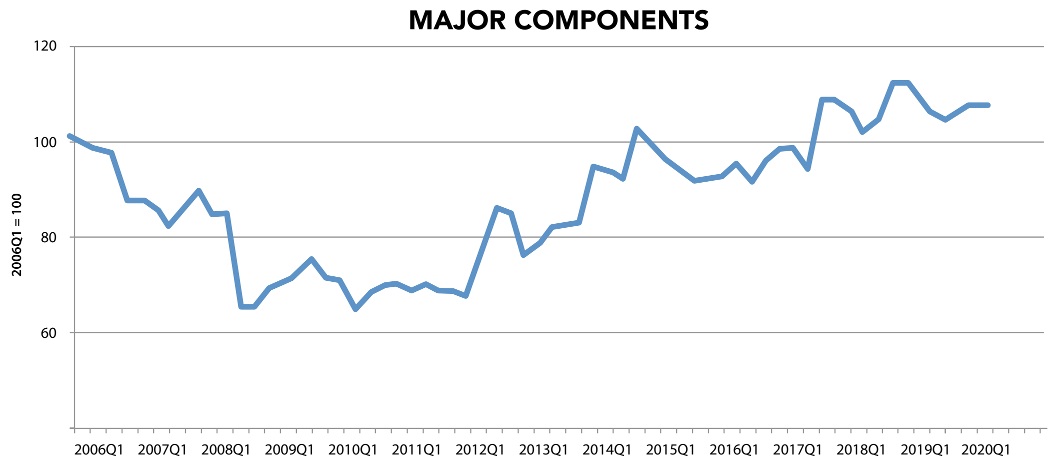
2021 EDITION

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 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 fourth quarter of 2020.

THE MEREDA INDEX FOR 2020: 113.3[1]

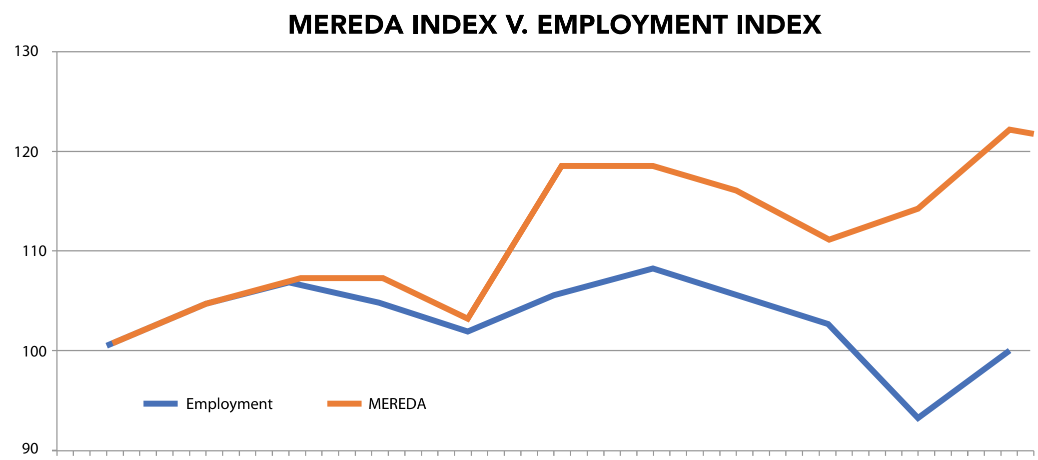
The annual average of the Index in 2020 grew by 2.8% over the annual average of 2019. The first half of the year saw a drop in the Index of 4% as the economy began the sharp decline related to the Covid-19 pandemic. But the Index shot upward in the second half of the year by 8.6% so that the 4th quarter of 2020 was 5.1% above the Index in the same quarter in 2019.



[1]Annual average

The 2.8% rise in the Index in 2020 appears relatively modest, barely ahead of the 2.2% by which the Index rose in 2019 compared with 2018. But the performance of the real estate sector in 2020 was quite remarkable compared with what was happening in the rest of the Maine economy due to the pandemic. In 2018 the Maine employment index and the MEREDA Index changed together at very similar rates. But in mid 2019, the MEREDA Index showed significantly faster growth than the overall economy. The MEREDA Index dropped slightly in early 2020 as noted, but the fall in Maine employment was dramatic, down 10% in the second quarter alone.

The changes in the Index in 2020 were driven by a combination of sharp growth in the residential Index, slight declines in the commercial Index, and relative stability in the construction Index.



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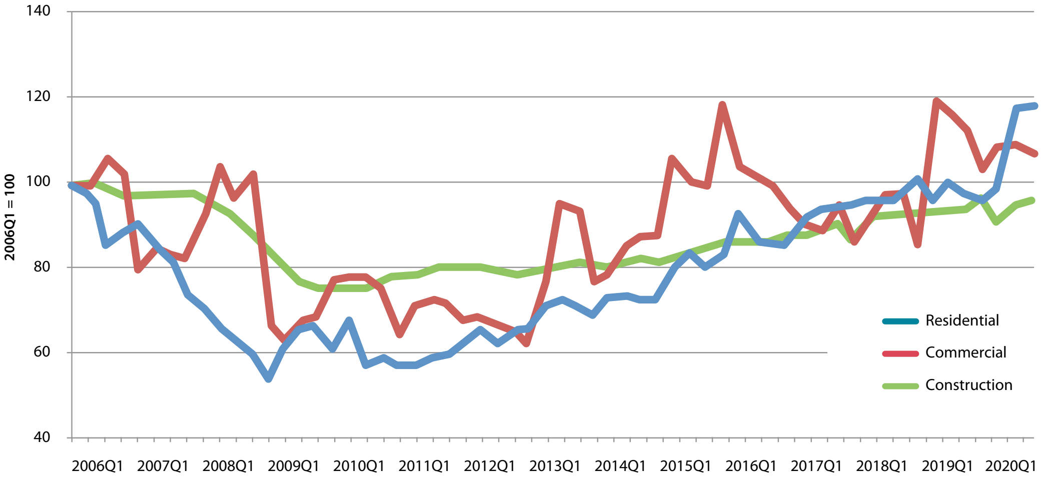
MAJOR COMPONENTS OF THE MEREDA INDEX



INTRODUCTION

"Nine 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 9th 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 various sectors of the real estate industry, but also as a way of tracking the trends for each component of the Index.

The 2021 Index contains a measurement and presentation of the real estate market in Maine, and its various components for all of 2020. 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 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.

As Dr. Colgan notes in his report, the performance of the real estate market in Maine in 2020 was quite remarkable. I think we all felt that, especially as we saw the dramatic increase in residential home prices and sales. To get more of a feel for the actual real estate market in 2020, 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. While the impact of the pandemic continues to be felt by all of us, we saw that Maine and its economy was able to weather a difficult year. As we look to the challenges and opportunities that lay ahead, the hard work and commitment of MEREDA members to keep Maine moving forward will be critical.

On behalf of the MEREDA Board, I'd like to thank Dr. Charles Colgan for tabulating such an incisive analysis for our Members. Thank you especially to Shelly Clark, Vice President of Operations at 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."

JOSH FIFIELD
PRESIDENT OF THE BOARD, MEREDA
VICE PRESIDENT, SENIOR ACCOUNT EXECUTIVE
Clark Insurance

113.3

MEREDA INDEX

2021 EDITION

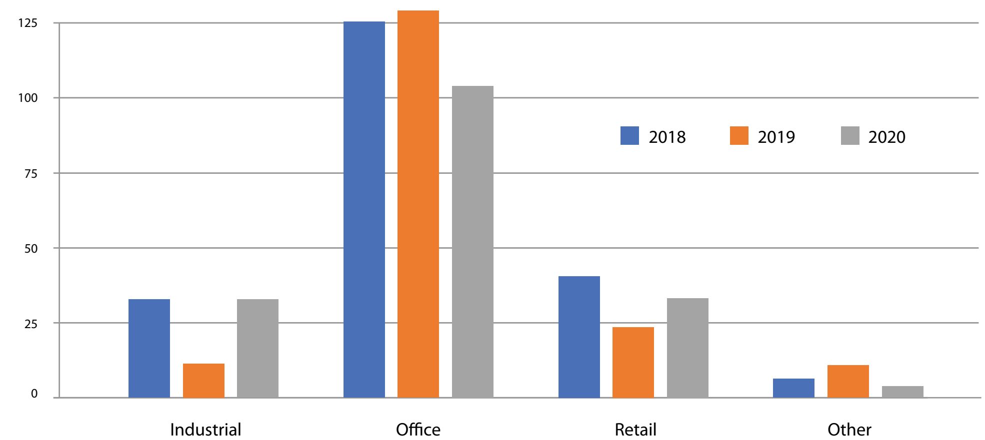
THE COMMERCIAL COMPONENT: 108.2

50% COMPOSITE INDEX

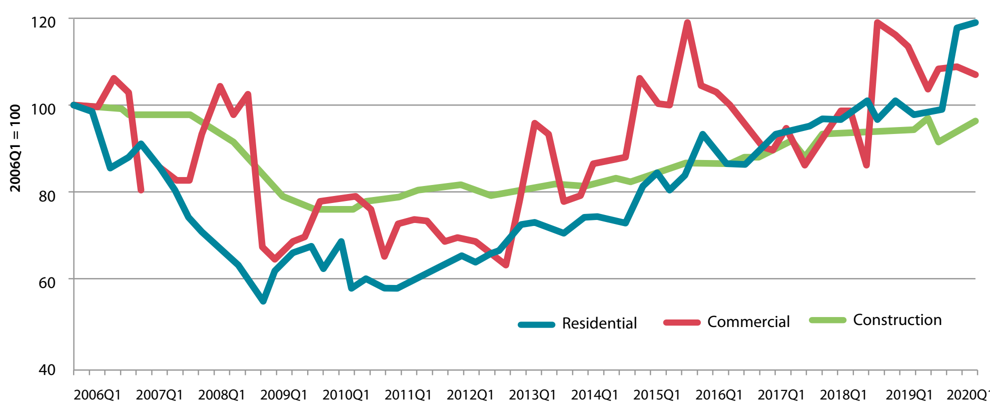
2020 was not a good year for commercial real estate, marking a change from several years of stability or modest growth. The number of sales and leasing transactions was down 3.5% on an annual average basis compared with 2019, and the square footage of transactions declined by 29.3%. Lease rental rates on a square foot basis fell 2.5% but average sales prices per square foot increased by 5.7%.

The unique circumstances of 2020, with a mass exodus from offices in a shift to remote working along with the shutdowns for extended periods of a variety of retail goods and services establishments, were reflected in the commercial real estate market. Office lease transactions fell from 127 in 2019 to 102 in 2020, a 20% drop. Retail leasing also fell by 12%. But industrial transactions in 2020 grew significantly and returned to the same levels as in 2018. The effect of the ending of the pandemic in 2021 on the office and retail market will be one of the key issues for the commercial sector in the future.

LEASE TRANSACTIONS BY TYPE



COMMERCIAL COMPONENTS



CHERI BONAWITZ, CCIM
BROKER
Malone Commercial Brokers

"As we are all aware, 2020 was a year like no other. Throughout the pandemic the commercial real estate market was very active in certain sectors and suffered setbacks in others. The office market in Greater Portland had an overall vacancy factor at the end of 2020 very similar to the numbers at the end of 2019 (6.97% vs 6.34%). At the start of the pandemic, most of Maine was working from their often hastily prepared home offices. As the year wore on, we saw a number of workers begin to return to their offices, while a large faction of people continued to work from home. The impact on leasing of both large and small vacant office space has yet to be determined, but we are seeing some promising signs that there still is a desire to maintain a connection with the normal workplace. There were a number of significant office sales and office leases signed in 2020; including the office lease of Berry Dunn for 87,906 SF at 2211 Congress St.

In the retail market, a number of Old Port retailers have closed, but there are many others who managed to hang on throughout the pandemic and are hoping to rebound during 2021. The Maine Mall experienced a number of retail closures which may continue until people are more comfortable shopping in a mall environment. However, several of the larger vacancies were filled in 2020 by furniture retailers whose sales have increased dramatically during Covid. Covid dealt a hard blow to venues such as wedding businesses, concert halls, movies, gyms, and larger indoor spaces. Meanwhile, there were other retailers who benefited greatly from Covid, typically those that offered any type of home improvements. We saw that many restaurants were able to pivot to curbside or takeout service to offset some of their losses, while there was a boon for grocery stores, liquor stores, and retailers selling home and outdoor recreation items.

The industrial market remains strong with very low vacancy rates which continued throughout 2020. The legalization of cannabis growers and retail sales continue to impact the lack of industrial availability throughout the state. Also, the continued growth of the life science sector and craft brewing is also filling potential vacancies. We expect to see some signs of recovery in commercial markets as vaccinations increase and our normal routines are restored."

Karen Rich, a fellow broker at Malone, contributed to this commentary.

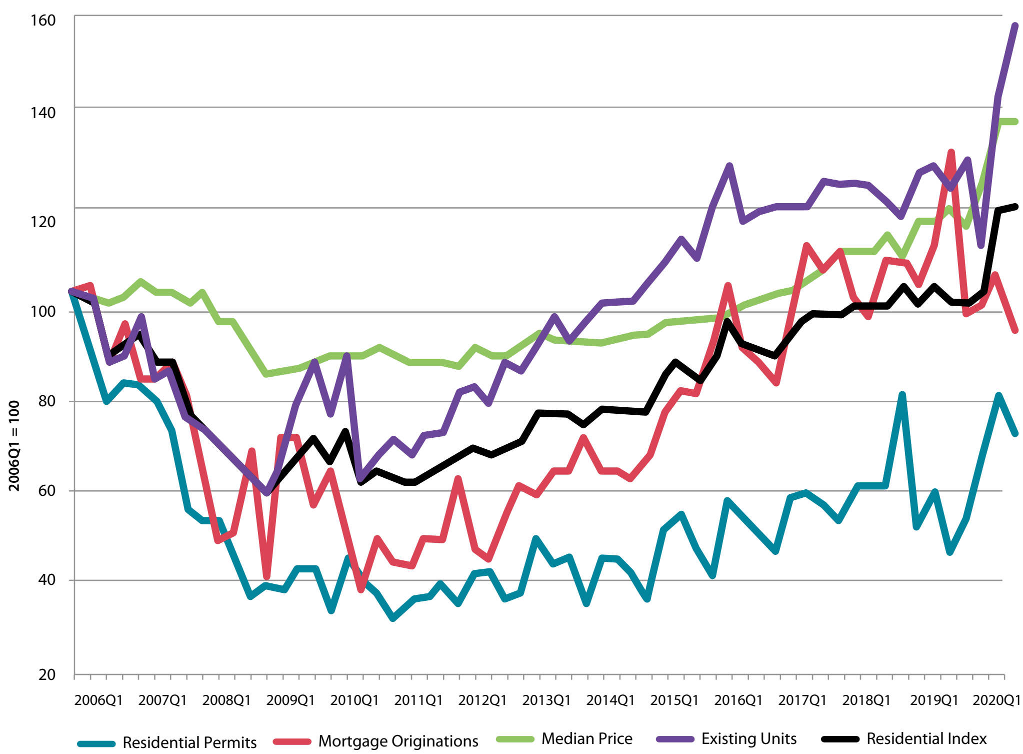
THE RESIDENTIAL COMPONENT: 113.3

40% COMPOSITE INDEX

The driving force in the growth of the MEREDA Index in 2020 was the sharp growth in the residential Index, particularly in both the number of units sold in the second half of the year, and a sharp rise in the median sales price. The Index for the number of units sold in 2020 was up 9.5% in 2020 over 2019 on an annual average basis and 28.9% comparing 4th quarters. The median sales price rose 13% on an annual average basis, while the permits for new construction grew by 16%. 4th quarter permits grew by 58% in 2020 compared with the same quarter in 2019 on a seasonally adjusted basis.

The only part of the residential Index that fell in 2020 was mortgage originations (by 13.6%). The divergence between units sold and mortgage originations is unusual and may be related to anecdotal evidence of a large number of out-of-state buyers entering the Maine housing market in response to the pandemic and these buyers may have financed their purchases with equity taken out of their other homes.

RESIDENTIAL COMPONENTS



“2020 with all of its challenges, has seen a continuation of a strong residential market that many had predicted would end in 2019. While Reger Dasco Properties is focused on residential condominiums in urban markets, the theme is the same as in the suburbs: low inventory and strong demand. Many have heard of the on-going bidding wars and multiple offers above asking price for single family houses, trends we feel are not healthy or sustainable. However, this is not the case with condominiums in our sector. Urban condominiums serve a different demographic: empty nesters looking to down-size and live in a walkable and safe community, as well as young professionals realizing that with the low interest rate environment, they can own a highly appointed condominium with amenities for the same monthly payment as they shell out for rent. Due to the pandemic, we are also starting to see increased demand from young professionals who are working remotely and looking to escape the high-cost larger cities, such as San Francisco, New York, and Boston, and choosing Maine as their new home base.

There also has been a continuation of the same challenges that we have faced for the past several years: higher construction costs, higher material costs, and a shortage of skilled labor. Exasperating these challenges in the Portland market are the political winds as they relate to the new referendums. Simply put, while the intentions were good, more housing cannot be built under the new ordinances passed in November 2020. The inclusionary zoning is simply too burdensome! In our most recently completed project (Hobson’s Landing Phase 1), we were able to build off-site units to meet the 10 % requirement. The new requirement is 25% and the affordability calculation was brought down from 120% of AMI to 80% of AMI. In addition, under the new ordinance, developers cannot build off-site units and if you want to pay the fee in lieu, your cost goes from $100K per unit to $150K per unit. Under the new ordinances that would add $4.1 million in costs to that same project when fully built out. Therefore, longer term, we expect you will see legacy grandfathered projects get worked off and eventually new residential multifamily construction come to a halt.”

113.3

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2021 EDITION

JOE DASCO
PRINCIPAL
Reger Dasco Properties

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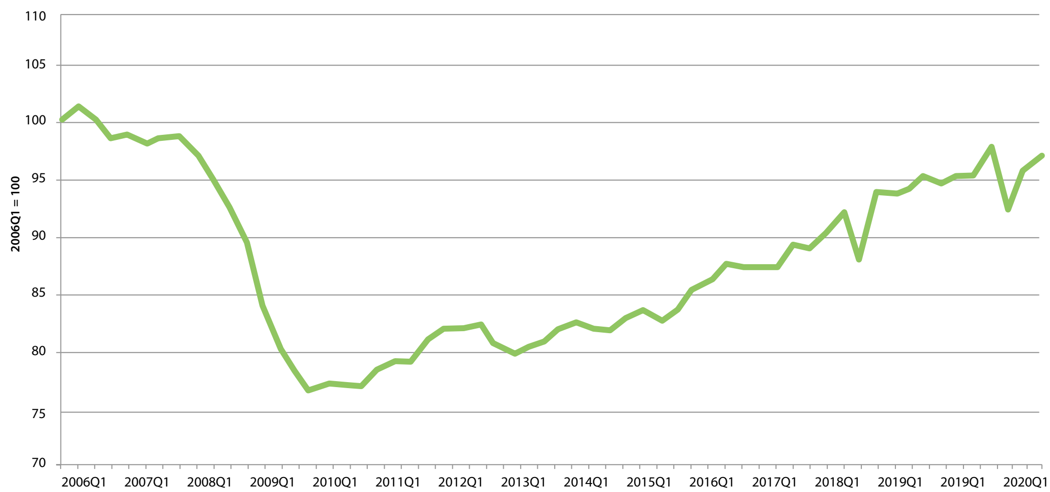
2021 EDITION

THE CONSTRUCTION COMPONENT: 95.6

10% COMPOSITE INDEX

The construction employment Index was up 0.6% in 2020 over 2019. There was a sharp dip in the second quarter as the shutdowns took hold and the rules about safe working were being worked out. But employment quickly recovered in the second half of the year to pre-pandemic levels. Construction employment has shown relative stability to slight growth for several years, which the pandemic briefly, but only briefly interrupted.

CONSTRUCTION COMPONENT



"2020 was certainly a year for the history books, but it wasn't all bad. We expected residential and industrial to be hot markets, and they were. And while things are selling, they're going at a premium. 2020 drove the costs up for building materials, lease rates, and purchase prices across all sectors. But the unexpected twist during the pandemic was that the industrial market remained hotter-than-ever, with very little pause. This was driven by the need for shipping, warehousing, and manufacturing space. This need created a trend in new construction as well, which was a bit unpredicted. For years, southern Maine has had record low inventories of industrial space – yet, costs for new construction were always far greater than being able to purchase an existing building. With limited supply and increased demand, the delta between new construction and existing industrial properties has closed enough to move the needle for this sector. Buyers realized that if you're going to pay a premium to buy and retrofit, you might as well just build something new and customized. If we use The Downs as an example, we have 80% of the lots committed in Phase 1 and Phase 2 of our industrial district (Innovation District), which all will result in newly constructed buildings.

When the pandemic hit, The Downs was a 'blank canvas' so we were already poised to meet market demand in the expected sectors of industrial and residential. Interest has been high, and despite uncertainty regarding Covid, companies are still making decisions relatively quickly. The same pace continues in the residential sector with units selling faster than we can build them. The entire country is now looking to places like Maine to balance out their home and work lives. Fortunately for us, The Downs' master plan included all of the amenities needed to live, work, and play – which proved to be a coveted community trifecta during the pandemic.

It's tough to say exactly what will happen with the construction industry moving forward; there is demand, macroeconomic factors, and interest rates to consider. With construction costs being high, if interest rates go up, it becomes even more difficult to make a project work. It is hard to predict how long all the variables will stay aligned. But if 2020 has taught us anything, it's that regardless of what industry you're in, we are more resilient than we could have ever imagined, which is perhaps the most valuable lesson on the table."

Roccy Risbara, Managing Partner at The Downs, contributed to this commentary.

DREW SIGFRIDSON, SIOR
MANAGING DIRECTOR
The Boulos Company
EXCLUSIVE REPRESENTATIVE
The Downs

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.

113.3

MEREDA INDEX

2021 EDITION

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 Index was completely recalculated from 2005 through 2020.

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 Senior Research Advisor for 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 in 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.

CHARLES S. COLGAN, PhD
PROFESSOR EMERITUS OF PUBLIC POLICY AND PLANNING
SENIOR RESEARCH ADVISOR
Maine Center for Business & Economic Research
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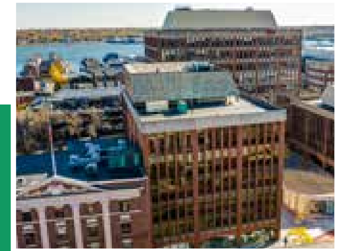





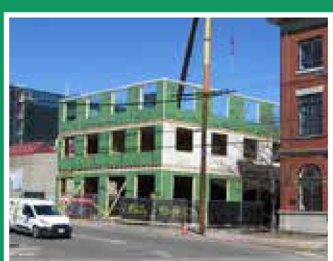


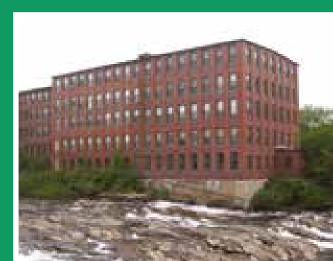


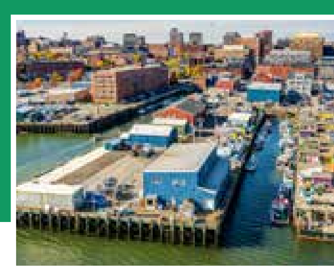
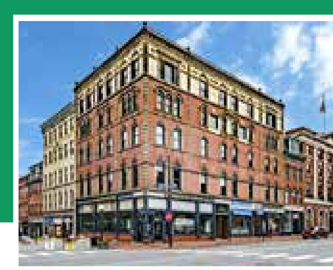

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