



116.3



THE MEREDA 2022 INDEX

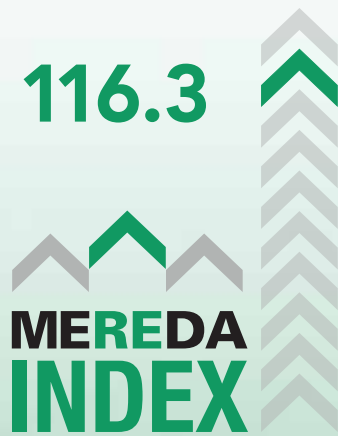
This Edition of the MEREDA Index is Underwritten by:

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MEREDA
INDEX



Pictured on Front Cover: Recipients of MEREDA's 2021 Notable Project Award



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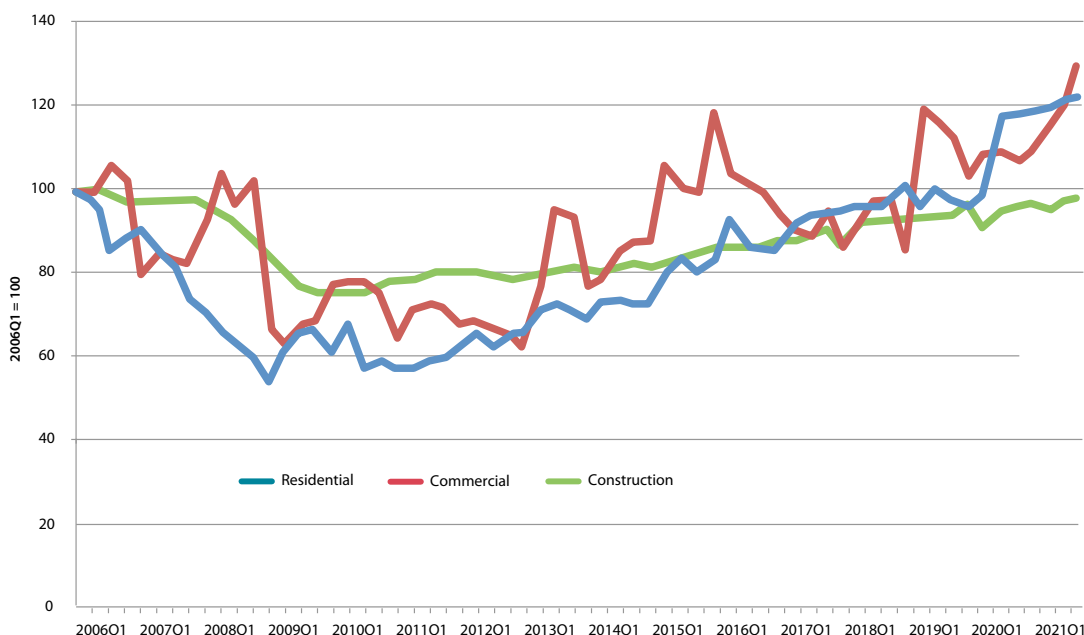
WHAT IS THE MEREDA INDEX?

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 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 2021.

THE MEREDA INDEX FOR 2021: 116.3¹

The MEREDA Index jumped by 10.8% in 2021 over 2020. The Index increased each quarter over the previous year's same quarter throughout the year, with over 10% increases in the first and fourth quarters. As with previous years, the residential component of the Index was the fastest growing. While the commercial Index reversed growth trends in 2020 and 2019, it put in solid growth, particularly in the second part of the year. The Construction Employment Index showed slight growth.

MAJOR COMPONENTS OF THE MEREDA INDEX



SHELLY R. CLARK VICE PRESIDENT OF OPERATIONS

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Maine Real Estate &
Development Association

Supporting Responsible Development

INTRODUCTION

“

Ten 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 a decade ago, 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. Now in our 10th year of preparing the Index, we have new historic events shaping our economy and industry. 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.

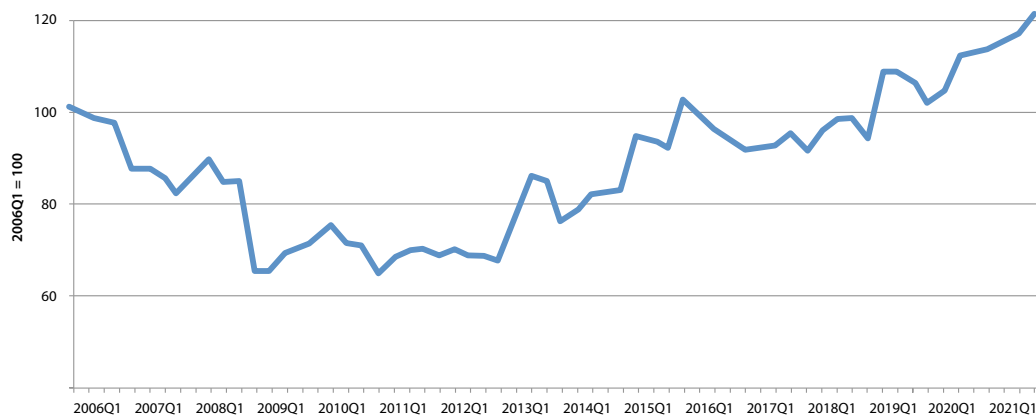
The 2022 Index contains a report from Dr. Charles Colgan with a measurement and presentation of the real estate market in Maine and its various components for all of 2021. To complement Dr. Colgan's report, we asked our three commentators to share their 'boots on the ground' perspective for their sector - commercial, residential, and construction. 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.

Looking at the numbers in Dr. Colgan's report and reflecting on the commentary, we see Maine had another truly incredible year in real estate! Even with dramatic price increases and a serious lack of inventory, Maine's market remains strong and fast moving. This new reality also highlights an imbalance of the supply and demand in our state. On a positive note, this lack of supply is pushing developers into more rural communities, bringing new construction and thoughtful renovations. But that will take time, and many Mainers – both homebuyers and business owners – are simply left out of this competitive market for now. Hopefully not for long as there are great legislative opportunities MEREDA has been advocating for with the State of Maine to help implement responsible growth now and in the future.

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 being a part of our organization and our mission of supporting responsible development in Maine.”

MAJOR COMPONENTS



¹Annual average

116.3

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JOSHUA FIFIELD

PRESIDENT OF THE BOARD,
MEREDA

VICE PRESIDENT,
SENIOR ACCOUNT EXECUTIVE
Clark Insurance

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MEREDA INDEX

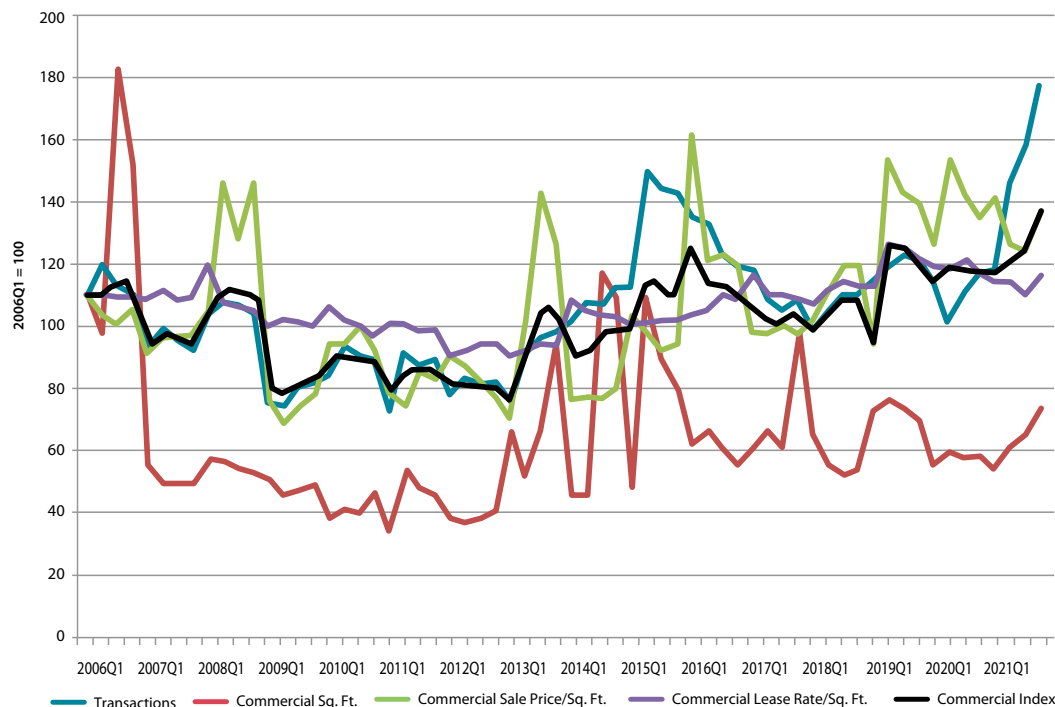
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THE COMMERCIAL COMPONENT: 116.7

50%
COMPOSITE
INDEX

Following little growth in 2020, the commercial Index grew overall by nearly 9%. The principal driver of the growth was a significant increase in lease and sales transactions. There were 575 commercial transactions in 2021 compared with 325 in 2020. Square footage sold and leased also increased by 1.6 million square feet. The rapid growth in supply was most likely a response to the abnormal conditions of 2020, but the supply growth was not met with comparable demand growth, resulting in both the per square foot sales and lease rate indexes to each decline by about 5%.

COMMERCIAL COMPONENTS



“Coming into 2021, we felt a sense of optimism that people would start coming back to the office. While this did happen on a small scale - predominantly in downtown offices - the Delta variant quickly changed people’s ‘back to work’ plans. Office tenants were all over the place and no one seemed to have an answer on how to effectively move forward. As a result of all this uncertainty, two major trends emerged. First, tenants with lease expirations in 2021 (or even later) whose employees could work from home, chose to abandon their space altogether. Second, tenants chose very short-term renewals as a way to kick the can down the road. Most landlords accepted these renewals, often on less than favorable terms, in order to keep vacancy down and to get a shot at future renewals. In my opinion, because of this, the real impact of Covid on the office market has yet to be seen.

In direct contrast, the investment market thrived in 2021 where the overriding theme was lack of inventory. Quality, well-priced investment properties almost never made it to market, but were sent directly from brokers to the ever-widening pool of eager investors. Cap rates at or below 6%-7% became the norm, especially for larger apartment complex sales, and 1031 Tax Deferred Exchanges remained a driving factor in the strength of the market.

Hands down, the shining star of the 2021 commercial market was the industrial sector. With a vacancy rate of less than 2%, every aspect of the industrial market seemed to flourish. Rental rates were up, sale of owner/user properties and industrial investment grade properties set record \$/SF sale prices. Even with an influx of new inventory from The Downs in Scarborough, the industrial sector managed to surpass everyone’s expectations and will likely continue to do so for the foreseeable future.

The retail sector was a bit of a surprise. While we saw some bigger vacancies in the suburban market, we didn’t see the panic we expected from Covid. The downtown Portland market sadly lost several restaurants and retailers, but it felt like just as a space would go vacant, someone was there to scoop it up. Tenants who have been trying for years to get into the Old Port now had the opportunity. Also, as Covid drove people out of bigger cities into Southern Maine, their ideas for new restaurants, boutiques, and specialty stores came along, too. Thankfully, it seems that neither online shopping, food delivery services, nor Covid can kill the bricks and mortar stores and restaurants we all love.”



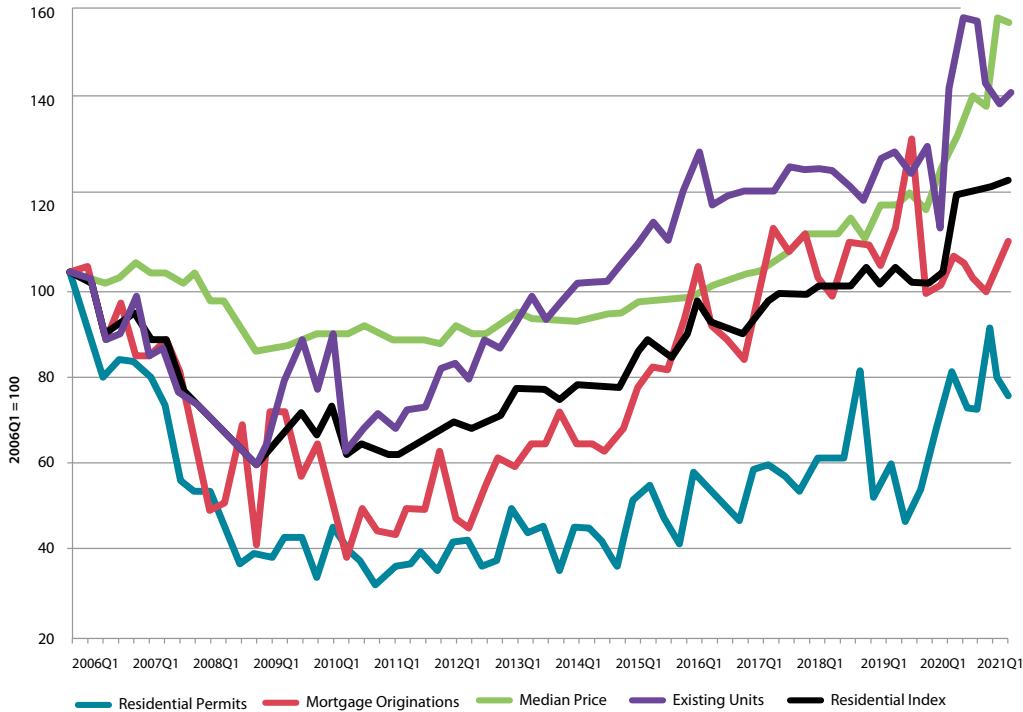
KATIE ALLEN, ESQ.
BROKER
The Dunham Group

THE RESIDENTIAL COMPONENT: 120.8

40%
COMPOSITE
INDEX

All components of the residential Index showed growth in 2021 over 2020. Existing unit sales and mortgage originations grew by about 5% each, but demand clearly exceeded supply in the residential market because the median price index grew by over 14%. The median price for residential sales hit an all-time high of \$303,000 in the third quarter. With an Index value over 150 in the second half of the year the median home price in Maine has grown by more than 50% since 2006. This high price probably suppressed sales of existing units to some extent, but it definitely had an effect on housing construction. The index for residential permits grew by 24% over 2020.

RESIDENTIAL COMPONENTS



“Buying a house in Maine has never been harder. Home prices are soaring, and demand is at a peak. Unfortunately, this red-hot residential marketplace is leaving more and more Mainers out of the equation. That’s why affordable housing in Maine remains an important topic.

Creating enough housing to fill the ever-growing demand has never been more challenging than over the last two years of the Covid-19 pandemic. We also have never had a greater opportunity to make large gains in boosting our total housing inventory, thanks in large part to the support coming from both Augusta and Washington, D.C., as well as our municipal partners in places like Old Orchard Beach and Auburn. While the challenges are many, the future also looks promising with so many new projects on the horizon.

MaineHousing, along with partners across the affordable housing landscape, broke development records in 2021 and currently has the largest pipeline in our history. 524 new rental units were put online, creating more housing for families, older adults, the disabled, and those needing extra support. This represents a \$121 million investment that is fueling economies from Belfast to Biddeford. Many of those new units have been opened in Maine’s larger service-center communities of Bangor and Portland, where the housing shortage has driven rents and home prices to astronomical levels.

MaineHousing staff, the construction community, and our development partners – both public and private – have adapted well to the challenges presented by ongoing supply chain and labor constraints. From advances in energy efficiency technologies to fast-tracked zoning changes, we have found innovative solutions that are helping us continue to produce units in these difficult times.

As we saw skyrocketing sales prices and an ongoing inventory shortage in 2021, our single family First Home mortgage products trailed off slightly. That said, we maintained record-low interest rates, below three percent, while issuing 725 new First Home mortgages totaling over \$114 million. Most of those mortgages also qualified for our Advantage Program, providing eligible borrowers with a \$3,500 grant for down payment and closing costs. That program alone provided \$2 million in home buying assistance to 97 percent of those approved for First Home mortgages. While the market remains very challenging, we are optimistic we will eclipse our 2021 production numbers in 2022 allowing even more Maine families to build equity in a home they own.”

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DAN BRENNAN
DIRECTOR
MaineHousing
Maine State Housing Authority

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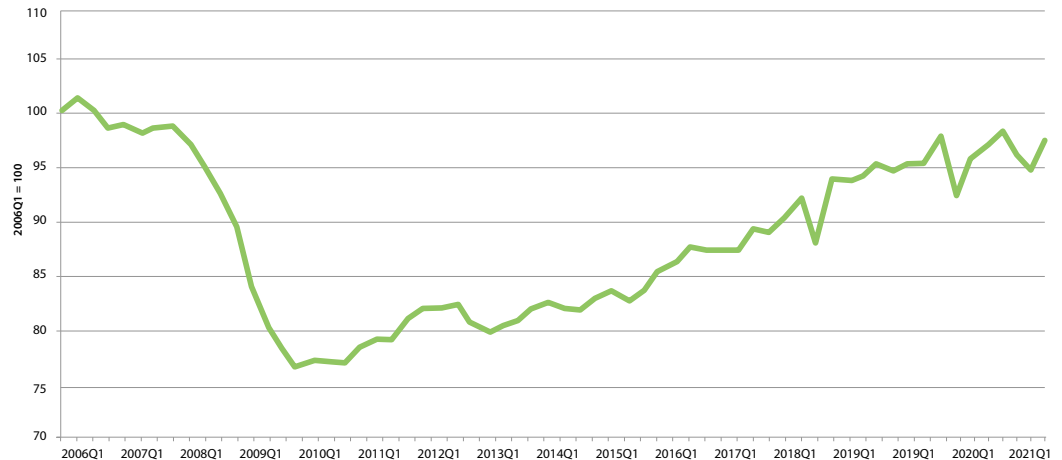
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THE CONSTRUCTION COMPONENT: 96.3

10%
COMPOSITE
INDEX

The Construction Employment Index was up 0.8% in 2021 over 2020. The seasonally adjusted index was strongest in the second and third quarter, but employment tailed off in the first and fourth quarters. The large volume of commercial transactions and growth in square feet together with growth in residential permits should probably have resulted in more of an increase in construction employment than was actually observed. The rather modest increase very likely reflected the overall labor shortages that characterized the economy throughout 2021.

CONSTRUCTION COMPONENT



"I picture construction's share of the Maine economy like a huge sound system - the volume cranked up too high and base thumping hard...exciting and energizing, but after a while it feels like we need to dial it back a bit. The pressure is high and not letting up. Here's why:

The construction market in Maine crosses many sectors - industrial, commercial, retail, and residential. While a little different for each, one thing remains constant: more than enough work, not enough bodies. Baby-boomers are retiring in droves, and news flash - there are not enough Gen-Xers to take over. Millennials are starting to fill the gaps, but experience is a desirable and uncommon differentiator. These labor shortages are a critical factor in the success of our construction businesses, and the economy overall. Right now it's putting a major restriction on how much and how fast we can build... and, trust me, there is a waiting list.

I see three other factors driving the construction market and adding to the pressure: cash, remote work, and home improvement. With lots of available cash and rates still low, money is looking for places to diversify and return to investors. This is helpful to commercial and industrial locations... heck, even hotels are bouncing back. Covid may have shaken the tree and helped solidify areas of opportunity. Next, remote workers 'from away' are relocating to 'Vacationland' and turning it into 'Staycationland.' When they come, they bring their salaries and sometimes their businesses. Lastly, Mainers of all types have been on lockdown and want to improve or expand their homes. The trend I have seen is clients are saving more and their spending habits have changed. Family life has changed, too, thanks to the 'work from home' model...and oh, yeah, many had 'kids at school' working next to them so they desperately needed more space.

Focusing on 2021 residential construction, activity was strong despite Covid - especially along the coast. The aging housing stock in Maine means most existing housing needs to be renovated and many homeowners lack the experience or desire to work on their homes themselves. With a critically low supply of housing and the federal infrastructure stimulus coming, we may see more people settle here, which will only increase the pressure to build new or improved homes. A state with such a modest population is bound to feel changes like this across the board and it's likely this uncomfortable transition will take years to play out."



SHANNON RICHARDS
FOUNDER
Hay Runner

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.

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.

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.

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