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Experts provide forecasts for 2012

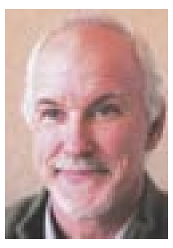
The New Year appears to resemble the old in many ways, but signs of a turnaround are on the increase.

By DAVID HARRIGAN
Maineland Consultants

Each year at this time, Maineland Consultants ask some of Portland's most respected commercial brokers to provide their views on the commercial real estate climate for the upcoming year.

Today, as they look forward to 2012, most local brokers are predicting that the upcoming year will not differ significantly from 2011.

Statistically, the state MLS (MREIS) and New England Commercial Property Exchange (NECPE) are both reporting total sales from 2011 as being consistent with the 2010 figures. The economy continues to flutter, and interest rates remain at favorable levels, allowing most market participants to reposition debt.


David Harrigan

In the commercial real estate market, the beginning of the new year is a time of opportunity. Landlords across the board have tightened their expenses to offset falling or stable income. These same ingredients are expected to continue during 2012, providing the platform for a stable market.

Maineland Consultants extends sincere thanks to Steve Baumann of Cardente Real Estate, Frank O'Connor of NAI The Dunham Group, and Tony McDonald of CBRE|The Boulos Company for their predictions, which appear below.

And again, our thanks to all the colleagues, clients and friends who contributed to Maineland Consultants' monthly reports in 2011. We look forward to working with you throughout 2012.

The retail market

By Steve Baumann,
Cardente Real Estate

Looking back at 2011, the commercial real estate market experienced several significant setbacks in the secondary retail marketplace.

Both national and local retailers closed non-performing stores within the state. These closures caused a spike in the overall vacancy for Maine.

However, leasing remained strong and robust in the key retail areas of Greater Portland's retail market.


Steve Baumann

We saw the Old Port remain at a very low vacancy level and enjoy strong demand for space. New local and national retailers were ready to step in when stores closed their doors.

For example, Urban Outfitters opened at 188 Middle St., and We Buy opened its first of many stores on Lower Exchange Street, along with Maine's first Five Guys Burgers and Fries on Fore Street.

Congress Street also saw the opening of Reny's, filling the void that L.L. Bean left.

The suburban retail marketplace has not been as strong as downtown's. Retail spaces under 10,000 square feet seem to be in high demand in the Mall area, with the exception of Books a Million, taking the former Borders space.

National retailers are expanding again in the suburban marketplace. We are also seeing companies like Elevation Burger, J Jill, Chipotle, and Buffalo Wild Wings breaking into the Maine retail market.

New concepts from local and independent retailers also branched out and opened new stores in and outside downtown. Portland Nutrition Corner opened its first location in South Portland mid-year nd experienced better-than-anticipated sales. In the Old Port, Go-Berry followed suit with its frozen yogurt concept and opened a new store on Fore Street late in the year.

As we enter 2012, the anticipation is for a stronger commercial retail market. The marketplace will see momentum continue and the absorption of vacant retail space due to its current demand and a better-than-anticipated holiday season that has left retailers feeling better about 2012.

Investment outlook

By Frank O'Connor,
NAI The Dunham Group

Confidence in commercial real estate as an investment vehicle seems to be higher than ever despite the overall economic conditions and the turbulence in the stock market.

In fact, the flight of capital from the stock market is keeping investment-grade real estate values from falling below pre-recession highs. If you look at historical capitalization rates as reported by Realty Rates.Com's quarterly investor survey, the weighted average of all property types in 2011 was 9.83 percent, compared to 9.75 percent in 2007. A look at the individual property categories shows a slight rise in capitalization rates peaking in 2010 and ticking down each quarter of 2011. Multi-family buildings were the exception, with 2011 cap rates lower than their pre recession levels.

The commercial market in Maine appears to mirror these national trends. Demand for multi-family properties is as strong as ever. Although per-unit pricing of older, scattered-site properties has fallen 20 percent, larger garden and mid-rise properties are trading at pre-recession levels.

The office and retail markets have taken the biggest hit, due to the increase in lease-up risk. These two sectors are directly affected by the slow economy.


Frank O'Connor

There have been a number of bankruptcies in the retail industry, and national chains have been quick to close underperforming stores. Office users are scaling down as they shed employees and move toward telecommuting.

These conditions have created stricter underwriting criteria from lenders who are requiring higher debt coverage ratios and substantial reserves which in turn reduce cash flow available for return on equity. This, coupled with higher vacancy and lower rental rates, is the cause for the drag on the retail and office sectors.

The industrial sector may be the sleeper. A recent survey by our firm indicates a vacancy in the Greater Portland area of only 6 percent. Manufacturing and distribution are generally the first sectors in the economy to improve, which indicates that things may be finally be turning around.

TRANSACTION OF THE YEAR

Richard Berman, the original developer of West Falmouth Crossing, acquired the TDBank Building in Falmouth from Dead River Company. The 143,030-square-foot office building, constructed in 2001 as a build-to-suit transaction, has TDBank as its tenant. TDBank has a long-term lease and has designated the property as a strategic asset, key for its operations in northern New England and Maine. Dirk Thomas has been retained as both property and asset manager. Berman and Thomas now own and operate more than 200,000 square feet of investment properties in the Portland area.

– David Harrigan

Steady improvement

By Tony McDonald,
CBRE|The Boulos Company

We see 2012 as a year of slow but steady improvement in the commercial real estate sector.

Vacancy rates seem to have peaked, and many predicted downsizings and adjustments have occurred in 2011.


Tony McDonald

We predict very little, if any, new construction, as current market rental rates simply do not support new construction pricing.

While we do expect that existing vacancies will slowly but surely be whittled away over the year, there is significant vacant space inventory going into the year. This will present excellent opportunities for tenants and buyers in search of space, as attractive deal terms will abound.

However, as supply tightens, this "tenants' market" will slowly diminish and prices and terms will begin to move towards the landlords (or sellers') favor.

Also, provided interest rates remain at their historically low levels, opportunities for buyers will continue to be extraordinary.

As business owners begin to develop confidence that better times are coming, they will probably look to take advantage of rock-bottom prices and low interest rates in order to lock into what could be once-in-a-lifetime buying opportunities.

This should drive an uptick in sales. Deals take time, however, and tenants and buyers alike are advised to start their search early.

In particular, large users (10,000 square feet and greater) may be surprised to find how few options they have to consider. They are there, but the list is not long.

Once users in need of facilities find that existing inventory does not meet their needs, their realization will drive the realization of new construction, and that will pull overall market pricing upwards.

We don't expect to see any shovels in the ground in 2012, but do expect that by the end of the year there will be new-construction plans moving ahead.