Southern Maine’s real estate market still riding high, experts say

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By J. Craig Anderson January 18, 2018

Southern Maine’s real estate market is riding high on the strength of rising home values, booming tourism, a tight market for industrial properties and renewed interest in office construction.

That was the consensus among presenters at the 2018 Maine Real Estate and Development Association forecasting conference, held Thursday in Portland. The event drew a record 900 professionals and 100 exhibitors who came to discuss trends and factors affecting sales, leasing and construction in Maine’s industrial, office, residential, retail and hospitality sectors.

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Some sectors performed better than others in 2017, according to the presenters. The residential market performed the best, with the state’s median home price increasing by about 6 percent from a year earlier. Meanwhile, the commercial market experienced a slowdown in activity as more investors held onto their properties, which drove down the volume of sales.

Concerns for the immediate future of Maine’s real estate industry include rising interest rates, the continued delay of legal recreational marijuana sales, and the development of additional hotel rooms in Portland despite relatively flat occupancy rates.

Overall, Maine’s real estate industry experienced its strongest third quarter in over a decade in 2017, as evidenced by a score of 96 on the MEREDA Index, a measure of real estate activity designed to track changes in the state’s real estate markets. The index reached its highest point in 2017 since it was created a decade earlier. A score of 100 would mean the state’s real estate market has returned to its highest point prior to the recession, in the first quarter of 2006.

“The index is at historic levels,” said Paul Peck, president of the MEREDA board and an attorney at Drummond & Drummond law firm.

RESIDENTIAL

Cumberland County home sales activity maintained the brisk pace set in 2016, according to an analysis of the residential sector by Dava Davin of Portside Real Estate Group.

Davin said the total value of home sales rose 39 percent in four years – from $1 billion in 2013 to $1.46 billion in 2017. The median sale price over the same period rose more than 18 percent, from $241,000 to $285,000.

Davin noted that the most popular type of home sold in Cumberland County was a three-bedroom Colonial, under 2,000 square feet, on a quarter-acre lot.

Statewide, 2017 transactions were flat compared with 2016, she said. In 2016, considered a record year for single-family homes sales, there were 17,641 sales; in 2017 there were 17,775.

But sellers enjoyed a hot market all year, according to Davin. The average days on market for a single-family home in Maine last year was 35; in 2013, the average was 78 days.

In Cumberland County, it was even hotter, she said. Average days on market were just 15 last year, down from 46 days in 2013.

For this year, Davin predicts an an increase in senior housing projects, more millennials moving into the residential market and a continued increase in prices, but not as dramatic as in 2017.

INDUSTRIAL

Marijuana-related businesses inked fewer real estate deals in the Portland area in 2017 due to legislative inaction, high construction costs and a low industrial vacancy rate.

The marijuana industry has driven a lot of activity in the Portland industrial real estate market in recent years, said Justin Lamontagne, partner and broker at NAI The Dunham Group in Portland. The growth in that industry – along with craft brewing, fitness facilities and craft food and beverage production – helped drive the industrial vacancy rate in Portland from a healthy 8 percent in 2011 to an astonishing 1.25 percent in 2017, Lamontagne said. But that growth seemed to level out in 2017 as marijuana entrepreneurs remained interested but seemed more reluctant to sign on the dotted line, he said.

“That industry which drove so much activity in years past really slowed down in 2017,” Lamontagne told the conference audience. “There are just too many unknowns, a real lack of legislative direction. We had a lot of interest, a lot of inquiries, but inking deals, and closing deals, was very challenging in 2017. I think that stands to change in 2018.”

Once Maine launches its recreational market – state lawmakers are crafting a bill now on how to regulate adult-use cultivation, manufacturing and sales –Lamontagne predicts it will be rural areas and northern Maine that will see the majority of industrial real estate deals. Greater Portland just doesn’t have the industrial space available to house much of these kinds of high-impact businesses – of the 18.6 million square feet of industrial space that exists, only 233,000 square feet of it is available to rent, he said. But rural areas and northern Maine still have space available, he said.

“We just don’t have any place for these guys to go,” Lamontagne said. “The real great opportunity in my opinion for those communities that do embrace this industry is going to be in the rural markets and the secondary markets, where they still have big mills and shuttered factories and a need for new jobs and new commerce. If people do want to take advantage of this new industry, that is where it’s going to happen.”

RETAIL

Vacancy rates for retail space in southern Maine increased in 2017, but they are still less than half the national average.

Karen Rich, a commercial broker and vice president of Cardente Real Estate in Portland, noted that vacancy rates in Greater Portland went from 3.44 percent in 2016 to just over 5 percent in 2017. The national rate remained consistent from year to year at 11 percent.

One of the most significant losses last year was at the Maine Mall in South Portland, where the Bon-Ton department store left a 120,800-square-foot hole when it closed in August. The Sports Authority in the Maine Mall also closed, but the space already has been leased to Round One Entertainment Inc.

Annual lease rates were down at $15.11 per square foot in 2017, compared to nearly $18 per square foot the year before. That figure was still higher than the average lease rates reported between 2010 and 2015. And the going rates in the Old Port continued to increase, with annual lease rates higher than $40 per square foot on parts of Exchange Street.

“As a broker, I didn’t really feel like the rates were coming down, but when you look at the averages at the end of the year, the average lease rates for what was being tracked had come down almost 15 percent,” Rich said.

New franchises to come to Maine last year included Ocean State Job Lot and West Elm. Restaurants were also a particular area of growth, Rich said.

“Within the last five to seven years, Portland has really become known as a foodie city,” she said. “What’s happened, I think, is that everyone that puts their restaurant in Portland really ups their game.”

In 2018, Rich said she expects to see more big box stores downsize or close underperforming locations. Retailers also would continue what she called omnichannel growth – reaching customers in multiple ways including physical stores, mobile apps, social media and personalized emails.

“It solidifies the importance of bricks-and-mortar retail,” Rich said. “A few years ago, I think we were all concerned, oh my gosh, is e-commerce really going to take the place of physical stores? I think what’s clear when you really delve into now is that’s not going to happen.”

HOSPITALITY

The hospitality sector continues to see flat or low-growth occupancy, but rising per-room rates and revenue, according to Steve Hewins, executive director of the Maine Innkeepers Association.

More than 1,200 hotel rooms have been added to the Portland area since 2013 and there are nearly 350 new rooms under construction with more on the way. That will keep occupancy rates fairly level, at around 60 percent, although rates are much higher during high-demand summer months, according to Hewins.

“One of the things about seasonality is that it brings down the broader metrics you use,” he said.

The price and profitability of hotel rooms has soared and more growth is forecast in 2018, according to Hewins.

Last year, the average daily rate for hotel rooms was almost $130 a night, compared to about $95.81 a night in 2010. Revenue per available room has similarly grown, from $56.46 per room on average in 2010, to $77.50 last year. Both daily rates and revenue per room is expected to grow 2 to 3 percent next year, Hewins forecast.

A noticeable sale in 2017 was the $55.7 million purchase of the Residence Inn by Marriott on Fore Street in Portland, which at $311,453 a room is likely the biggest hospitality real estate transaction in Maine history and indicates the strength of the market, Hewins said.

“People don’t put that type of money into a place unless they have a long-term vision,” he said.

While Hewins painted an overall rosy picture, the popularity of private accommodations like Airbnb and a critical seasonal labor shortage will “continue to bite at our heels and perhaps become a mitigating factor,” Hewins said.

Staff Writers Penelope Overton, Megan Doyle and Peter McGuire contributed to this report.

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