spotlight/maine

Maine has numerous development opportunities for those seeking alternative investment strategies

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In 2001, the tech-sector busted and many major cities lost large tenants who left behind empty office space. In Portland however, it was business as usual. By 2003, the national vacancy rate was over 16% while Greater Portland's vacancy rate was just over 6%. Needless to say, investors found this scenario attractive and income-producing investment properties were unloaded by the handful to local and out-of-state investors alike. While, Maine remains a stable real estate investment market, this fact is no longer a secret. And, as the demand for tenanted real estate continues to outweigh the supply over the past couple years, it takes a creative new approach to yield high investment returns.

Gone are the days where 10% returns on stable income-generating properties are considered a norm in Maine's commercial real estate market. CAP-Rates have fallen into the 6-9% range, causing many investors to be priced out of the market. Yet due to the volatility of other types of investments such as the stock market and the low-yield nature of safer investments, real estate is still a relatively high-yielding *and* stable investment. But, in today's commercial real estate market, great gains are not found simply by opening the classified section in your local newspaper. Those seeking to maximize investment returns are looking less at tenanted, income-producing properties, and are often finding land to develop themselves.

For some investors, properties that generate 6-9% returns are sensible investments. Those who invest in commercial real estate are typically looking for a stable place to park money while collecting dividends and appreciating capital. Developing real estate often is not an option, as many don't want real estate to become a full time job and others can't or don't want to take on the additional risk of buying undeveloped property. This coupled with real estate's appreciation over time, keeps demand high for income-generating real estate in this 6-9% return range. And because demand still outweighs supply by a significant margin, this won't change for the foreseeable future, so owners/sellers of investment properties should not worry about a market collapse.

For those seeking alternative investment strategies, however, I would argue that developing real estate does not necessarily have to be a full time job if you are working with the right real estate professionals. And, although they do present significantly more risk than investing in fully or even partially tenanted properties, there are ways to mitigate risk in development projects. Ways to lower risk include:

1. Know your tenant. Find tenants to work with before finding properties to purchase. By getting to know who the tenants are that are looking for space in a given area and by understanding what they are looking for, a developer is better equipped to select sites that will be in demand.

2. Know your market. By knowing planned developments in a specific market, an investor/developer can purchase sites that are not in demand but will be in demand in the near or distant future. There is plenty of risk involved with real estate speculation, but a savvy investor/developer can lessen the risk by being well informed. Returns can be substantial for the well-informed developer who can afford to purchase property and sit on it while waiting for other area projects to be developed.

3. Ground lease. Leasing land passes on the cost of construction from the landlord to the tenant. And because the tenant takes on the cost and risk associated with building its own structure, a typical initial term for a ground lease is at least 20 years. This eliminates the risk involved with re-leasing in an uncertain market if a tenant vacates a build-to-suit. Ground leases are much more commonplace with retail tenants versus office or industrial.

4. Negotiate a favorable contract. Developments don't happen over night. As such, it is wise, if not necessary, to negotiate a favorable purchase and sale agreement so that you can go through the approval process *prior* to closing on the property. Many if not most developers won't close on properties without having approvals in place. Buying a piece of land to develop can be very risky if you don't know whether the project will be approved by the local planning and zoning boards. Other considerations include state approvals for potential traffic and/or environmental issues.

Would-be developers take note: Maine continues to be a sought after destination for major retail operations that have already staked their claim in other parts of the nation. As such, there are numerous development opportunities for those seeking alternative investment strategies. By keeping in mind the basic ways to reduce risk in a development deal, anyone with a passion for real estate, the appropriate resources, and a desire to maximize returns can become a commercial real estate developer.

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