Projecting properties: MEREDA's annual forecast conference steels real estate professionals for a rough 2009

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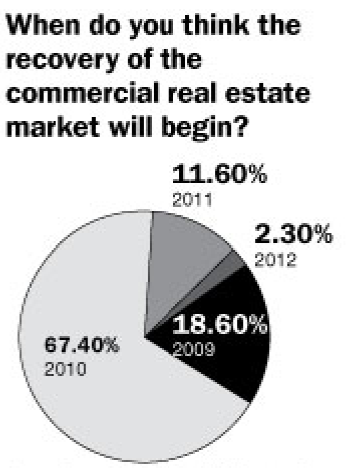
It's going to get worse before it gets better. That phrase wasn't what attendees wanted to hear, but that was the take-away message at the Maine Real Estate and Development Association's 2009 Annual Real Estate Forecast Conference, held Jan. 29 at the Holiday Inn by the Bay in Portland. Presenters from all of Maine's real estate sectors — office, industrial, residential and hospitality — provided, with varying degrees of grimness, a 2008 year-in-review and predicted an even tougher year in 2009.

Maine's retail market was no exception. The state, like the nation, is suffering from what industry experts are calling the market's worst contraction in 35 years, as national retailers like Circuit City and Linens 'n Things go out of business. The sour market has also put the brakes on retail development in the state, including the planned $8 million expansion of the Maine Mall, which owners General Growth Properties recently decided to postpone indefinitely because of the weak economy — the second planned expansion the Chicago firm has scrapped in Maine since 2008.



Source: International Council of Shopping Centers

Matthew Cardente, owner of Portland's Cardente Real Estate, predicted the trend would continue in 2009 in his overview of the retail market. The state's overall retail vacancy rate in 2008 averaged 7.18%, a number that Cardente, speaking the day after the conference, characterized as not horrible but not great. Retail vacancy rates across the southern half of the state range from 0% in places like Yarmouth and Westbrook to nearly 21% in Scarborough. And these vacancy rates, as of Dec. 1, 2008, do not include a number of major retailers that are scheduled to close in coming months, or those retailers who have closed but are still paying rent. Cardente expects to see a rise in vacancy rates in 2009 as these empty stores go on the market. The state's smaller population and an oversaturation of retailers will mean brokers will struggle to attract new tenants.

"I'm not convinced in 2009 that we're going to see those spaces fill up," Cardente said, "especially with class A retail opportunities like high-end retail." And as the recession deepens, more retail space could go on the market. "There's so much competition in retail production that unless things turn around, I foresee a lot of closures."

Cardente predicts brokers will have more success bringing in wholesalers, like BJ's, or stores that offer low-priced items, like Family Dollar, but only if they are willing to offer discount pricing on rents. Brokers and property owners also might be forced to divide the massive vacant space left by a big-box store to appeal to smaller operations, or consider alternative uses, such as service-related or limited retail operations. Smaller retail developments with two to five tenants will fare better, especially those with reasonably priced food operations like Subway and Amato's, establishments that are performing better in the downturn. Developers and brokers will have to be patient. Though the retail market could start to turn around in 2010, Cardente doesn't think we'll see a solid improvement until 2011.

Despite the retail deflation, there are still a number of retail development projects that have recently finished or are being planned. Cardente predicts that these developments, like the Freeport Village Station and two projects happening around Cabela's in Scarborough, will be able to attract tenants, but will do better catering to retailers that offer Maine-made products and regional operations instead of national chains. Developers will also have to adjust their expectations. "We'll see those filling up, but will it be at the price point they could have gotten two or three years ago? I don't think so," says Cardente.

News was equally mixed in other real estate sectors. Here's a roundup:

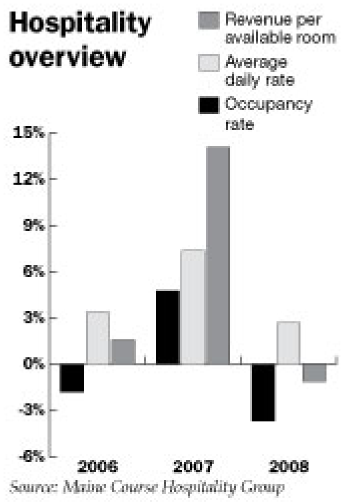
Southern Maine office market

Jim Harnden of Ram Harnden Commercial Real Estate Services said 2008 ended with vacancy rates at about 8.6 % in the Greater Portland market — a far cry from the heady days of 2006 when rates ran about 5%, but still a long way from the 11% rates of the early '90s. He said sales and lease rates will come down to attract occupants while capitalization rates will likely increase. Deflated prices present good opportunities for investors.

Southern Maine industrial market

Tom Dunham and Greg Hastings of NAI The Dunham Group cited the impact from the recession of the late '80s, noting it took 15 years to regain market value. A huge surplus of available space will push rent and lease rates down. Owners who are looking for single tenants might have to subdivide space. If the federal stimulus passes, the flood of money might trigger inflation, said Hastings. Landlords should consider tying lease increases to the Consumer Price Index and negotiate for shorter leases while tenants should angle for longer leases and fixed lease rates.

Hospitality



Though Maine's hospitality industry saw a downturn in 2008, it wasn't as severe as it could have been, said Sean Riley, chief operating officer of Maine Course Hospitality Group. Though occupancy in 2008 declined, average daily rate — the price of room sales compared with the number of rooms sold — increased nearly 3%. Though revenue per available room decreased in 2008 by a little more than 1%, 2007's massive increase of 14% helped to temper last year's decline.

Residential

Maine's median home prices are likely to fall another 5% to 10% before leveling off, predicted Anne Weigel of Coldwell Banker Residential Brokerage in Portland. She said uncertainty in the market due to the recession, job losses and tight credit made forecasting especially difficult this year. Foreclosures and short sales are also contributing to the fall in prices.

Multi-family market

All sales in 2008 were down significantly, with nearly stagnant activity in Biddeford and Lewiston-Auburn, reported Brit Vitalius of Sullivan Multi Family Realty in Portland. Portland's rental market still seems strong with low vacancies, but other cities within 30 miles are seeing two-year inventories of properties for sale. Vitalius said that many landlords would not have stayed in business through the winter if oil prices hadn't dropped.

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