

Commercial Real Estate Report

Local brokers offer positive predictions for 2008 markets

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With the continuation of increases in construction costs, the aggressive pricing of commercial land, and the flattened commercial lease rates, developers are finding it more difficult to justify new construction.

All commercial sectors have been affected by the rise in development costs but the retail sector has been less affected than the office and industrial sectors.

This is due in part to the higher achievable lease rates of retail vs. office and industrial. Rough estimates suggest that a Class A office building and a retail complex cost about the same to build (\$150-165 per square foot). However, Class A office lease rates range from \$15-20 per square foot NNN.

In 2007, new retail developments included the 520,000-square-foot Shops at Biddeford anchored by Target and Lowe's; the 454,000-square-foot Augusta Crossing anchored by Lowe's and Best Buy; and the Gateway Shoppes at Scarborough that will be anchored by a 130,000-square-foot Cabela's.

Typically, these types of centers acquire big box tenants to support the development and then fill in the remainder of the space with small-to medium-sized retailers.

For 2008, we predict a softer market for the smaller units in these regional retail centers as their lease rates are aggressively priced and there has been a substantial increase in retail supply in the marketplace. Lease rates for the smaller retailers in these centers range from \$20-35 per

square foot NNN, pending the unit size and location.

We anticipate a slowdown in 2008 in filling these units as these lease rates are typically too high for local retailers and are tough to justify for national retailers after they have reviewed the demographics of Maine.

Maine's income is below the national average, out population base is small, and there has been an abundance of retail development in the last 12 years.

It is our prediction that the strength of the retail market for 2008 will be pre-agreed-to big box developments, the refilling of Class B to A— retail complexes, and smaller retail developments that support two to five tenants.

There are still a fair amount of secondary markets in Maine that demographically can support these types of smaller retail developments. We predict that Portland's Old Port retail district will remain strong as it continues to have more demand for space than there is supply.

Typically, brokerage transactions seem to dwindle during the Christmas season and right before the tax deadline. However, in the last several months, we have seen a surge in interest in the retail, office and industrial markets. It is our prediction that the real estate market will continue to pick up in 2008 through the ongoing issues will be construction costs, achievable lease rates/purchase prices, and increased area competition.