

In the Marketplace

It's still a seller's market

Nathan DeLois
Cardente Real Estate



“Escalating land prices and skyrocketing construction costs have contributed to a real estate market that has developers pressing hard to find profitable projects.

We all know the cost of construction has increased significantly recently, but land prices are all but pricing developers and owner/users alike out of the market, and at the very least, making quality new developments scarce.

For developer, picture this scenario: A major national retailer or developer builds a regional shopping center anchored by multiple big-box stores and several baby-box stores. Throw in some national restaurant chains and banks, and suddenly local land prices spike upward.

Let's say it costs \$250 per square foot to buy land and build a quality small retail center in this neighborhood. To be adequately profitable, a developer will look for \$25-\$30 per square foot NNN in lease rates. If tenants in the market are willing to pay only \$15-\$20 per square foot NNN, the project will stall. Stalled projects have been occurring more often in Maine, as a reality of high land and construction costs converges with the reality of tenant budgets.

The solution? If construction costs remain high, the answer is simple: Over-inflated land prices must come down. If they don't, tenants will need to rethink target lease rates, and developers will

need to re-examine net returns to make projects work.

For owner/users, the land/construction cost juxtaposition has a different effect on the local real estate market. Businesses no longer wanting to pay rent every month face the decision of overpaying for new construction or pursuing existing construction.

Because existing buildings are typically far less expensive, owner/users are often willing to pay top dollar for an existing building, which still will be significantly less expensive than building new. The results have actually increased the values of existing, vacant buildings.

Even with the current state of the economy, the prospect of stalling commercial developments, and the lack of movement of residential properties, it is still a seller's market for existing commercial real estate. Compared to buying land and building new, or remaining a tenant, buying an existing building can look very enticing. In turn, this scenario can create a pretty sweet outcome for sellers.