



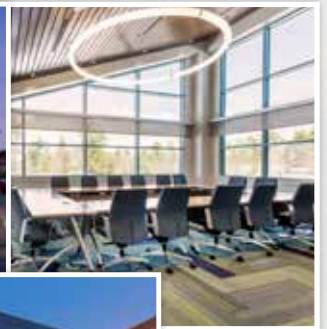
100.4



MEREDA
INDEX

SPRING EDITION

2018



100.4



SPRING EDITION 2018

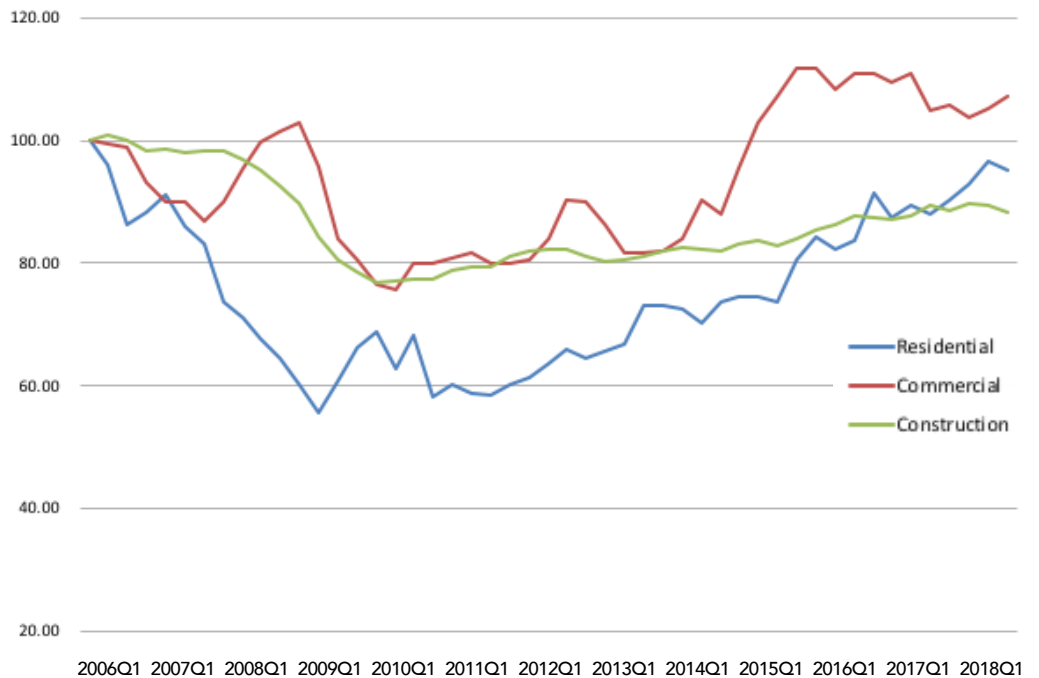
WHAT IS THE MEREDA INDEX?

The MEREDA Index is a measure of real estate activity designed to track changes in Maine's real estate markets. The Index is a composite of nine seasonally adjusted measures reflecting both new development and transactions involving existing properties and it covers both the commercial and residential markets statewide. The Index is measured quarterly beginning in the first quarter of 2006. This report covers the Index through the first quarter of 2018.

THE MEREDA INDEX: 100.4

Overall, The MEREDA Index showed continuing gains, rising by 2.4% since the third quarter of 2017 and 4% over the twelve months since the first quarter of 2017. Particularly during the last two quarters, The MEREDA Index has been driven primarily by rising prices in both the residential and commercial markets. The rising prices are supporting expanded supply of residential units, but commercial volume has not been as strong.

MAJOR COMPONENTS



SHELLY R. CLARK,
VICE PRESIDENT OF OPERATIONS

Maine Real Estate & Development Association
6 City Center, 3rd Floor, Portland, ME 04101
T: 207-874-0801 | F: 207-899-4870
www.mereda.org | info@mereda.org



Maine Real Estate &
Development Association

Supporting Responsible Development

INTRODUCTION

The MEREDA Index has hit its all-time peak, besting its performance quarter-over-quarter, and surpassing pre-recession levels. Congratulations to MEREDA members for your hard work and smart positioning during what has turned out to be a very busy four year stretch!

We don't usually hit a bust in the cycle until unexpected events trigger the end, so there's likely to be growth for many months to come, perhaps slowed only slightly by rising interest rates, land prices, and construction costs. There was so little construction from 2007 to 2014, that we are still making up for lost ground, with low inventory and pent up demand.

Drivers for growth are likely to include Maine's older housing stock and aging populations, both of which require attention and offer opportunity, whether from a new construction and remodeling viewpoint or from an institutional perspective. The elderly housing bond passed by voters several years ago if finally approved by the governor will be a good first step to help our elderly find safe and efficient housing.

Hospitality, medical, and industrial continue to lead the way on the commercial side, though some office construction is starting in cities. Older office buildings that are not remodeled may be the red herring in the mix, as I suspect they might miss out on any significant rent growth, with end-users preferring modern space for their employees.

Finally, the lack of trained or interested tradespeople in Maine plays out in these numbers and continues to disadvantage Maine. We must help policymakers and educators identify and execute solutions.

My thanks, as always, to Dr. Charles Colgan for tabulating such an insightful analysis of our industry. To the inimitable Shelly Clark, industry experts, and sponsors, who make this report possible: you are the best! And, most of all, to MEREDA members: thank you for your responsible dedication to Maine's landscape and economy. Keep up the good work.

MEREDA INDEX



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PAUL PECK, J.D.
PRESIDENT OF THE BOARD, MEREDA
Attorney, Drummond & Drummond
Principal, LWS Development

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MEREDA INDEX

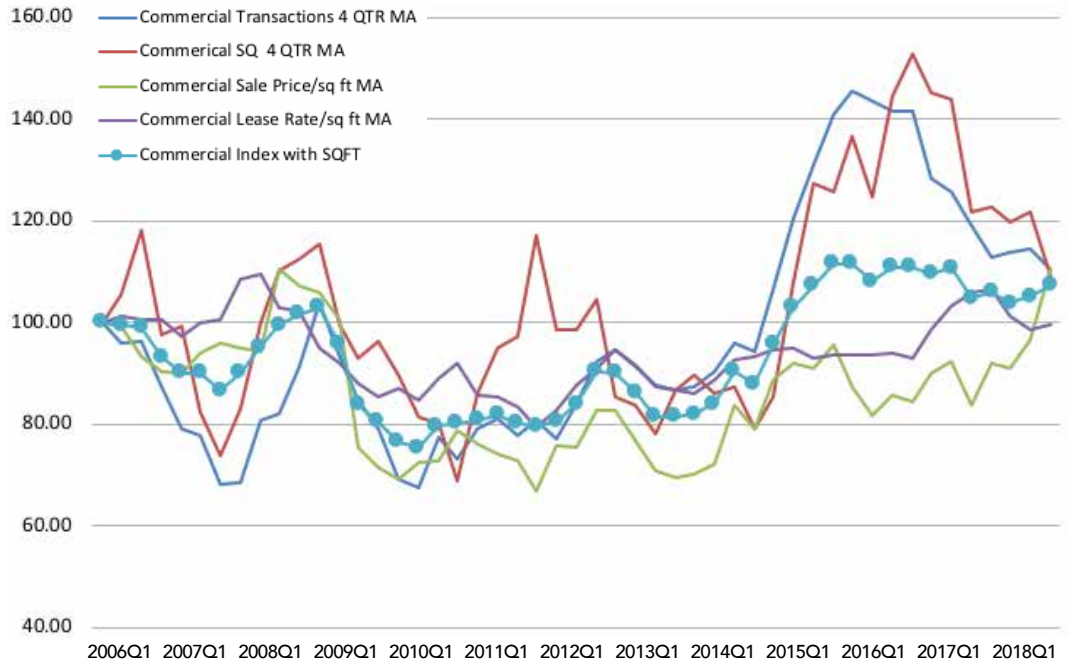
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THE COMMERCIAL COMPONENT: 107.13

50% COMPOSITE INDEX

Overall, the commercial market was up by 3.1% in the past two quarters and 2.2% over the past year, but there was a mixture of trends. Commercial sales price per square foot has risen significantly over both the past two quarters (31.7%) and over the past year (21.1%). But the metrics for leasing rates has declined by 5.6% over the past year and metrics for both the volume of commercial transactions and the square footage of commercial properties have declined over the past year by 7.1% and 10.5% respectively.

COMMERCIAL COMPONENTS



The Commercial Component has remained strong over the past year and is currently at a record high. While we have not seen quite the same level of growth we did in 2017, the commercial sector was up by 3.1% in the past two quarters and 2.2% over the past year. In spite of this positive trajectory, challenges remain.

The price per square foot of commercial sales has risen dramatically over the past two quarters and the past year (31.7% and 21.1% respectively). This increase is likely caused by several factors, but most clearly the lack of inventory. As a result, when a property hits the market there is a feeding frenzy that drives prices upward. This is particularly true in the investment market and the owner/user sector of the industrial market. The industrial market has become so tight from both a sale and leasing perspective that when a reasonably priced property hits the market, multiple offers have become commonplace.

The total transaction volume decreased by 7.1% over the past year. The lack of inventory certainly contributed to this metric but I also think the uptick in interest rates has finally garnered buyers' attention. In the past six months interest rates have increased approximately 50 basis points which inevitably has an impact on the tighter low-cap rate commercial deals and valuations in general.

I was surprised by the results for lease rates. According to The MEREDA Index, lease rates have dropped 5.6% over the past year. Industrial lease rates have increased dramatically, and Class A spaces seem to have plateaued. I suspect that the average decrease in lease rates must be attributed to suburban Class B properties (and more specifically to suburban retail as that market sector has taken a considerable hit over the past year).

In spite of the mixed trends we're tracking over the past year, there are some positive things happening in the commercial sector. Various construction projects, in all sectors of the market, are in planning stages or have already broken ground. The WEX building, Rock Row in Westbrook, the Widgery and Union Wharf office building, Saunders Way industrial park and the Fisherman's Wharf Hotel and retail project are just a few projects to be completed in the next 12-18 months.

Generally speaking, I predict continued commercial demand leading to increased development and supply.

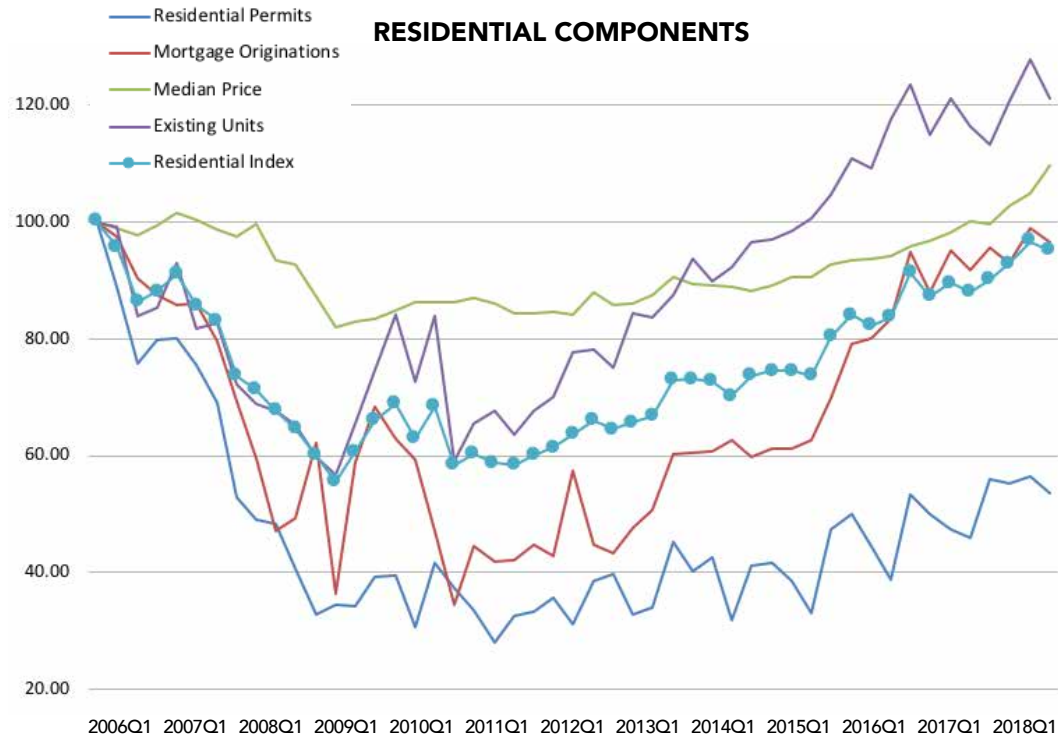


KATIE MILLETT
BROKER
NAI The Dunham Group

THE RESIDENTIAL COMPONENT: 95.04

40%
COMPOSITE
INDEX

The seasonally adjusted median house price rose 6.9% over the past two quarters and 9.5% over the past year. Permits for new single and multi-family construction are estimated by Moody's Analytics to show strong growth of over 16% on a seasonally adjusted basis over the last two quarters, suggesting the rising prices are calling forth additional supply. The metrics for mortgage originations (up 5%) and sales of existing units (4.2%) also showed strong growth.



Overall the residential market is robust. The element that continues to influence price is inventory. As the numbers show: median price rose 6.9% over the past two quarters and approximately 10% over the past year. During this time the volume of transaction has declined by 5%. This rise in median price is a direct result of buyers chasing limited amount of homes for sale. For instance, in Cumberland County the median price is hovering around \$300K. This is highest median price to date.

Sellers are pleased at pace and pricing in current market. Buyers are frustrated and often face multiple offer situations; losing out a few times may push a buyer to overbid OR motivate them to retreat the home buying process.

In town Portland continues to be a hot market. Downtown condo projects appeal to empty nesters, young urban buyers seeking vibrant, mixed use, pedestrian and bike friendly communities. This trend is growing in the suburbs too. Great examples include Deering Center in Portland, Meetinghouse Hill and Willard in South Portland.

As prices rise we are beginning to see additional building. New home starts are up although construction materials remain high with a shortage of labor. If these two factors remain tight, most new construction homes will be sold above median price.

Some good news in banking, where metrics show mortgage originations up 5%. This is thanks to a combination of consumers locking in prior to rates rising and an easing of banking regulations. Many lenders are not only pre-approving buyers but running all docs through underwriting, which can give buyers an edge and expedite speed to closing.

One metric that is difficult to measure, but is a trend we are seeing on the ground, is the influence of money rolling into Maine. This is spurred by an exodus from larger cities to Maine – seeking quality of life and ability to work from anywhere. That will continue to have an effect on residential housing.

So where are we going? Demand is strong, Inventory is low and median price is up to an historical high. Can this be sustainable? Short term: yes. But as interest rates rise and more inventory becomes available, prices may begin to flatten. We've seen it in rents already. It's a bit too early to say that the market will cool. Let's watch the next few quarters and look toward 2019!

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DAVID MARSDEN
ASSOCIATE BROKER
Marsden Real Estate
The Bean Group

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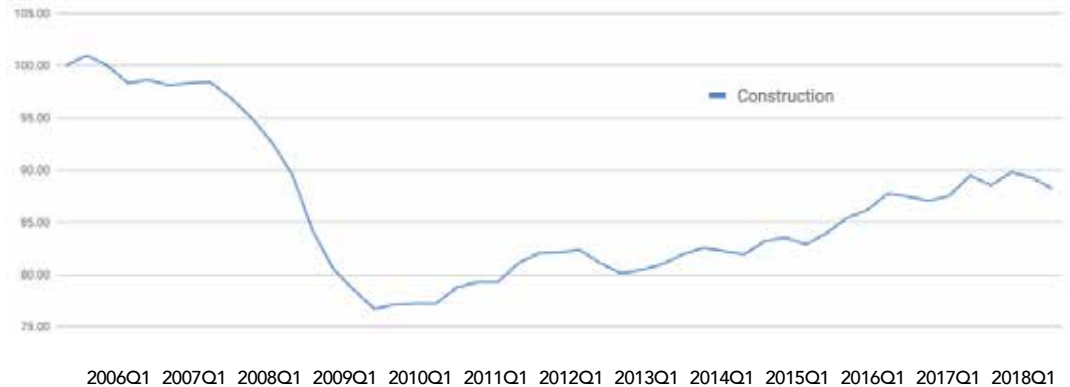
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THE CONSTRUCTION COMPONENT: 88.2

10%
COMPOSITE
INDEX

The rise in residential permits suggests additional supply in the residential market will be coming in the months ahead, but the additional supply is not showing up in construction, as construction employment has declined over both the past two quarters and the past year. These declines are the first that have appeared in several years.

CONSTRUCTION COMPONENT



The performance of the construction component of The MEREDA Index is based solely on labor numbers available from the State of Maine. So, while Maine-based construction employment continues to remain below pre-recession numbers, Zachau Construction saw very significant growth in 2017, though did so with only moderate personnel growth; this seems to be a microcosm of the industry overall. There are a number of potential reasons for declining employment numbers even though the sector is thriving.

With an extremely tight labor market, contractors are being forced to be creative. Larger and varying types of projects are being built with alternative methods of construction; for example, prefabrication and/or modular. Additionally, the tight labor market has forced our firm and others to find skilled workers from outside the state.

In addition to labor challenges, we are also starting to see increases in material pricing and lead times. In the first quarter of 2018 we have already seen double-digit increases in materials such as wood and steel. Early engagement and competitive procurement with a robust prequalification standard are a must in order to ensure committed labor and materials for a commercial project.

The strong Commercial Component of The MEREDA Index, with a handful of larger transactions, signifies that corporate entities have not shied away from large investments and in-turn, large-scale construction projects. To that end, The MEREDA Index construction employment numbers highlight the single biggest challenge facing Maine contractors: the decline of the skilled labor force.

At Zachau, we continue to be cautiously optimistic. One of the biggest factors limiting growth is labor shortage and undoubtedly we are all looking for ways to attract and retain new and younger talent. While the question still remains how long this labor shortage will last, it is clear that construction firms in this market will continue to do more with less.



JEFF ZACHAU
PRESIDENT
Zachau Construction

ABOUT MEREDA

The Maine Real Estate & Development Association (MEREDA) is an organization whose mission is to promote an environment for responsible development and ownership of real estate throughout the state. MEREDA accomplishes its mission through legislative advocacy, regulatory oversight, sponsorship of programs and conferences, and by serving as a unified and proactive representative for real estate and economic development interests.

MEREDA is the state's leading organization of commercial real estate owners, developers and related service providers. Founded in 1985, we now have over 325 members who employ thousands of Maine citizens and invest millions of dollars in the Maine economy each year. MEREDA is the only voice for the real estate development industry in Maine. Our success is dependent upon bringing together the many different trades that are vitally interested in promoting positive growth in our great state. MEREDA advocates for fair, consistent, predictable regulations to create a healthy economic climate. Our efforts to promote responsible growth through fair and predictable legislation and regulation are vital for a return to a healthy, thriving economy.

TECHNICAL NOTES

All data is either quarterly or monthly, converted to quarterly and then either seasonally adjusted or trended using moving averages and then compared to the value of each variable in the first quarter of 2006 (2006Q1=100). Data sources for the index include: the Maine Association of Realtors, CBRE | The Boulos Company, Maine Department of Labor, Mortgage Bankers Association, U.S. Census, and Moody's Analytics.

The relatively small volumes of real estate transactions in Maine and regular seasonal changes in the residential market mean that the raw numbers comprising the index can be very volatile from month to month and quarter to quarter. The index is constructed using methods that adjust for seasonal changes and better capture underlying trends in the real estate market. The underlying data is also subject to regular revisions as new information becomes available. Comparisons between the absolute values of the index in different editions of the index may not, therefore, be meaningful.

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CHARLES S. COLGAN, PHD
SENIOR RESEARCH ASSOCIATE
Maine Center for Business &
Economic Research
University of Southern Maine



*This edition of The MEREDA Index
is supported by:*

