Excerpt from: PORTLAND PRESS HERALD
Maine Commercial Real Estate
Tuesday, January 4, 2011

The 2011 outlook; reflections on 2010

Three of Maine's top commercial brokers offer their analyses of the past 12 months, and their forecasts for the New Year.

Compiled by MAINELAND CONSULTANTS

OFFICE

By DEB NAPOLITANO
Paragon Commercial Real Estate

Well let's see… how shall I start this forecast for commercial real estate in Maine 2011? I'm sitting by my fireplace with the logs burning bright - feeling very warm, and choose to see the brighter side of life.

It certainly could be easier for folks to think about the much publicized dark side of the real estate market, feeling more like the "Grinch Who Stole Xmas", but those who will be successful in 2011 are most certainly "Miracle on 34th Street" fans.

What a wonderful story this is-- asking people to believe in things they cannot fully see or understand, and telling them if at first you don't succeed, to try, try again!

"Believe," according to the Random House Dictionary, means "to have confidence in the truth, or the reliability of something without absolute proof." And Frank Montello, who was the original author of this Year End Article, was a "believer."

Frank, who has left us far too early and is sorely missed, was one of the rare people who always maintained a positive spirit and can-do ethic. He believed, and I would ask that each of you believe - in yourselves, each other, and the market.

Focus on the positives, and 2011 can be a great year for everyone.

I offer the following thoughts about "belief" as it relates to commercial real estate in Maine:

The year 2010 began with lots of conversations, but much uncertainty and few significant transactions. We witnessed the formal opening of the 179 room Marriott Residence Inn, the razing of the famous Jordan's Meat property and in its place the construction of the 122 room Hampton Inn. The single biggest real estate transaction was the sale all three Canal Plaza office towers. Taken all together, the largest transactions represented a more than a $65 million dollar investment in our community.

The New Year has all the markings of being far more positive than 2010. There is a marked increase in activity in the Class A office/retail market, both in sales and leasing.

Investors are aggressively seeking chances to acquire property.   Many are well capitalized, and a number of them are getting anxious to take money off the table.

While vacancies in all market sectors were up this past year, I predict positive absorption in 2011, and Southern Maine will be one of the few markets in the nation with single-digit vacancy rates.

We probably will not see bargain basement deals soon. People who are waiting for them may be disappointed. Expect a lingering gap between bid and ask prices through 2011. To be successful in 2011, we will need to work smarter to bridge that gap.

One last thought: The potential impact of tax reform under consideration by the current administration is something we should be seriously reviewing.

Please watch for my next article on this matter, coming soon.

So, as Kris Kringle said "Believe, help others, and with hard work, good things will happen!"

MaineCommercialRealEstate

Maine's best resource to buy, lease or sell space.

The 2011 outlook; reflections on 2010

Three of Maine's top commercial brokers offer their analyses of the past 12 months, and their forecasts for the New Year.

Compiled by
MAINELAND CONSULTANTS

2010 has come and gone, during which time the commercial real estate market has for the most part remained relatively stable. The year has not passed without significant transactions, yet the volume was rather sparse. In Portland, two transactions stand out:

Pierce Atwood's announcing its move from Monument Square to the redeveloped Cumberland Storage building on Merrill's Wharf, and ongoing redevelopment of the former Jordan Meats into a Hampton Inn.

While these may represent the most significant transactions, numerous others have kept the market active and provided stability.

As we look to 2011, Maineland Consultants has once again asked several of Portland's foremost commercial real estate brokers to provide forecasts.

OFFICE

By DEB NAPOLITANO
Paragon Commercial Real Estate

How shall I begin? I'm sitting by my fireplace, logs burning bright, feeling very warm, and choosing to see the brighter side of life.

It could be easier to think about the much-publicized dark side of the market, in the vein of "The Grinch Who Stole Christmas"; but those who will be successful in 2011 are the "Miracle on 34th Street" fans.

Deb Napolitano

What a wonderful story this is, asking people to believe in things they cannot fully see or understand, and telling them if at first they don't succeed, to try, try again!

"Believe," according to the Random House Dictionary, means "to have confidence in the truth, or the reliability of something without absolute proof." And Frank Montello, the original author of this year-end article, was a believer.

Frank, who has left us far too early and is sorely missed, was one of the rare people who always maintained a positive spirit and can-do ethic. He believed, and I would ask that each of you believe - in yourselves, each other, and the market.

Focus on the positives, and 2011 could be a great year for everyone.

I offer the following thoughts about "belief" as it relates to commercial real estate in Maine:

The year 2010 began with lots of conversations, but much uncertainty and few significant transactions. We witnessed the formal opening of the 179-room Marriott Residence Inn; the razing of the famous Jordan Meats property and in its place the construction of the 122-room Hampton Inn. The single biggest real estate transaction was the sale of all three Canal Plaza office towers. Taken all together, the largest transactions represented a more than $65 million dollar investment in our community.

The New Year has all the markings of being far more positive than 2010. There is a marked increase in activity in the Class A office/retail market, both in sales and leasing.

Investors are aggressively seeking chances to acquire property. Many are well capitalized, and a number of them are getting anxious to take money off the table.

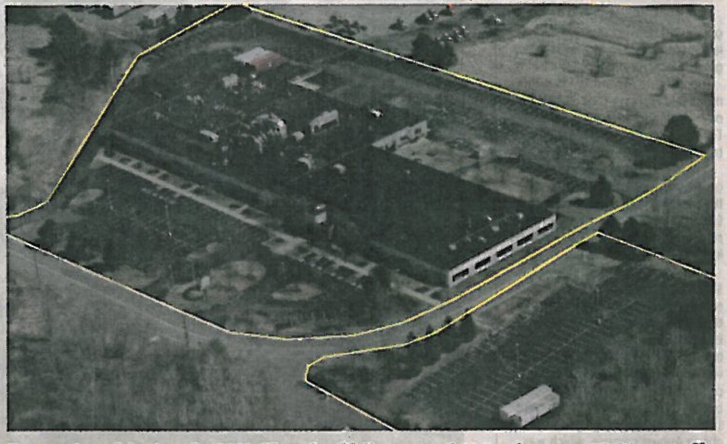
While vacancies in all market sectors were up this past year, I predict positive absorption in 2011, and that southern Maine will be one of the few markets in the nation with single-digit vacancy rates.

We probably will not see bargain-basement deals soon. People who are waiting for them may be disappointed. Expect a lingering gap between bid and ask prices through 2011. To be successful, we will need to work smarter to bridge that gap.

One last thought: The potential impact of tax reform under consideration by the current administration is something we should be seriously reviewing.

Please watch for my next article on this matter, coming soon.

So, as Kris Kringle said, "Believe, help others, and with hard work, good things will happen!"



Transaction of the Year for 2010: The sale of fully-tenanted 10 Southgate, on 10.86 acres off U.S. Route 1 in Scarborough, to Scarborough Medical, DST. See story, page 11.

RETAIL

By MARK MALONE
Malone Commercial Brokers

About 500 B.C., Confucius wrote these words based on the principles of moderation: "To go beyond is as wrong as to fall short."

He could well have been describing the extreme swings in retail real estate over the past 10 to 15 years. Might 2010 have been the year we began to find some balance?

The past decade saw record growth in southern Maine's retail sector. New shopping centers and new retailers popped up everywhere, not only around the Maine Mall area, but also in Sanford, Kennebunk, Biddeford, Lewiston/Auburn, Topsham, Brunswick, Augusta, etc.

Mark Malone

Then, all of a sudden, in late 2008 and throughout 2009 we saw record store closings, soaring vacancy rates, plummeting lease rates. By the end of 2009 many feared the bottom was nowhere in sight. Moderate but welcome relief was found in 2010, with a return toward stability, and an eye toward tempered optimism vs. an all-out "growth at all cost" frame of mind.

Throughout the year, the combination of increased vacancies and lower lease rates offered many savvy retailers the opportunity to improve their locations, and gave others the means to gain access to prime locations previously out of reach.

The year saw local tenants gaining an increased stake in the more prime retail markets. This also opened the door for local investors, contractors, architects, banks, attorneys and title companies to regain a stronger foothold in Maine's retail market.

Landlords' focus shifted from saving tenants from closing, by slashing or forgiving rent, to filling vacancies and stabilizing income. The repurposing or conversion of retail spaces and centers to other uses, such as medical or educational, slowed considerably by year's end.

If there was an overriding theme, 2010 was the Year of the Discounter. In greater Portland, big stories early in the year were Marden's taking over the nearly 100,000 square-foot, vacant Wal-Mart in Scarborough, and Goodwill's taking over the vacant Circuit City building nearer the mall.

In December, excitement followed the announcement that Reny's discount store would take 25,000 square feet in downtown Portland, vacated by L.L. Bean and Olympia Sports. The other major new tenant creating a stir was Trader Joe's, who took the vacant, 24,000-square-foot Wild Oats on Marginal Way in Portland.

Virtually all major additions to the market were discounters of sorts. Other noteworthy additions and announcements last year included Cracker Barrel and Chipotle restaurants, opening their first operations in Maine, and Five Guys Burgers and Fries, to open its first store in the Old Port this spring. We also saw SuperShoes return to greater Portland with a new, 25,000-square-foot store at the Maine Mall, in the former Linens 'n Things space.

The local market also highlighted many smaller, local, "bread and butter"-type tenants, from popcorn and ice cream shops to yoga studios. Such tenants played an important role in filling more than 40 small spaces for a total of 82,000 square feet of space.

There were several local retail closings in 2010, including L.L. Bean in downtown Portland, Wilderness House, Harris Golf, The Meat House (South Portland only), Movie Gallery, Hollywood Video, and Tim Horton's (Westbrook and Windham), for a total of about 50,000 square feet. The good news is, store closings dropped by about 75 percent from 2009, when slightly over 200,000 square feet of retail space went vacant.

The retail vacancy rate for greater Portland dropped from 10.8 percent in 2009 to 8.3 percent. This bucks the trend of the national retail vacancy rate, which increased from 11.9 percent in 2009, to an estimated 13.0 percent. Locally, vacancy rates stayed highest in the smaller neighborhoods and community shopping centers. There, as one might expect, higher-quality centers fared better than outdated, neglected properties.

Other positive local news is the market's returning to a positive net absorption for the first time since 2008, with 155,000 square feet more space occupied at year's end than at the beginning. Lease rates, however, continue to stay depressed, from 2006-2007 highs in the range of $18-$25 per square foot to now generally hovering in the $12-$15 range for better-quality properties and locations.

Meanwhile, changes in new construction during 2010, recent trends with single-tenant retail buildings, banks' dealing with dropping lease rates, and a growing trend among national retailers will color the prospects for 2011.

To hear about these trends, more retail analysis and other developing retail trends, plan to attend the Maine Real Estate Developers Association's (MEREDA) 2011 Annual Real Estate Forecast Conference on Thursday, Jan. 27; or see the Malone Commercial Broker's Annual Retail Report, published in late January.

As we look forward, paraphrasing Mark Twain seems appropriate for 2011: "The reports of retail's death have been greatly exaggerated."

INDUSTRIAL

By TOM DUNHAM, SIOR
NAI The Dunham Group

In the industrial real estate market, 2010 was another challenging year. As we predicted, decision-makers were reluctant to make real estate commitments due to unreliable economic conditions. The uncertainty of the elections and postponements of tax policies also delayed decisions.

The volume of transactions for 2010 was anemic, but we expect improvement in 2011. Changes in state and national leadership should provide greater confidence to owners/managers seeking to right-size operations.

During the fourth quarter of 2010, many owners saw rental rates were at 20-year lows, but they will escalate in 2011 as demand and absorption for space improves.

Tom Dunham

For example, after 24 months of vacancy, 230,000 square feet was subleased at the former Spencer Press facility in Wells, thanks to drastic price reductions. Deals successfully negotiated in 2010 were heavily discounted by landlords highly motivated to fill empty spaces.

Barring uncontrollable negative global events, we should see more activity and appreciation in industrial rental rates by 2011, as the inventory of good functional industrial space is absorbed. Now is an excellent time to pursue sale and lease opportunities in the industrial market.

Continued on page 11