

## Leasing Activity



Following two consecutive quarters of increased leasing activity in the Greater Portland office market, the third quarter of 2008 was down 33% when compared to 2007. This correction erased all of the year's prior positive results, with 2008 year-to-date leasing activity now even with the first three quarters of 2007. Tenants are clearly still apprehensive with regard to expansion and/or relocation plans, which continues to shift the scale more towards a tenant's market. While not widespread, and certainly specific to each situation, we are seeing more landlord concessions in this unsettled environment.

## Sales Activity



September marked a slow down in what had been increasing momentum in sales activity for the year. Our impression of today's sales market is simply a mixed bag. Owner/users have been cautious. A supply shortage of available investment properties, coupled with a pricing gap, has sidelined many investment buyers. In conversations with savvy investors, we hear they expect an increase in available properties, which may make them act. With financing available for buyers with good credit from a variety of lending sources, and prices declining, the environment is becoming conducive for tenants to convert to owner/users. In light of recent financial realities, people tell us they are happy they have commercial real estate in their portfolio.

3<sup>rd</sup>  
Quarter  
Perspectives  
2008

## The Commercial Real Estate Lending Environment



Consensus among the local lending community is that transaction volume may be down but they have money and are looking for deals.

**Small local banks** (loans of \$250,000 to \$3,000,000) continue to be active, but are pulling back on their geographic territory and not expanding as aggressively into markets absent a local branch. For those with consistently conservative underwriting criteria it is business as usual, outside of some unfavorable segments of the market that they are avoiding (e.g. speculative building, residential subdivisions, etc.). Rates remain in the mid to upper 6% range.

**Large local banks** (loans above \$3,000,000) are reporting that they remain ready, willing and able to lend, but that the deal flow is down significantly (especially in September). While their underwriting standards remain consistent, changes in today's underlying economic landscape are impacting rates and terms (e.g. increased vacancy in a segment, lower earnings, etc.). Rates remain in the mid 6% range.

**Life Insurance lenders** continue to be strong and are actively looking for deals. Their underwriting criteria has changed some though, with a tighter "strike zone" by class of product (flight to quality) and a lower LTV ratio from 75% / 80% to 70% / 75%.

**Conduit lending** is all but gone, down nationally to an estimated \$20 billion in 2008 from a high of \$200 billion in 2006. With no market for securitized loans, this form of lending will most likely not be re-constituted as before. Many conduit loans that are coming due from 7 & 10 yr. terms will require refinancing in the next few years, which should favorably impact both traditional bank and life insurance lenders and may create buying opportunities.