

Second Quarter Perspectives - 2003



Jim Harnden
President

- Pent up momentum in the commercial real estate market appeared to release some in the second quarter. Overall activity from both the leasing and sale perspective was increased significantly over the prior quarter. More specifically:

- More tenants are actively searching within the market, with more than double the number of leasing transactions reported in the second quarter of this year when compared to the first quarter.
- More buyers (both investors and owner-users) are coming forward as the demand continues to be strong for purchases in the commercial market. In fact, the time required to receive a commercial appraisal has stretched to 8 to 12 weeks in most instances, almost double of the time required nearly a year ago. Part of this is the impact of the refinancing market.



Roxane A. Cole
CCIM, Principal

- *Is this the bottom for interest rates?* In conversations with commercial bankers and lenders, consensus is that banks and lending institutions are at the bottom regarding interest rates (rates are in fact already ticking up). Further reductions in the Fed Funds Interest Rate by the Federal Reserve may not lower commercial mortgage rates further, given that margins for lenders are already slim. Conversations with bankers led to the following generalizations (however, each commercial deal is priced individually based on the quality of the real estate and the individual borrower):

- Variable rates as low as 3.5%;
- Fixed rates from 5.25% to 6%;
- Lenders prefer shorter-term fixed periods in loans in this low rate environment, such as 5 years versus 7 or 10 years. However, longer fixed terms are available at higher pricing.

The reality is that many people are taking advantage of the unprecedented opportunities available in commercial real estate lending to purchase or refinance, given that it is currently a very competitive environment.

- On the development side, grocery-anchored shopping center development continues to push forward in Greater Portland, with a handful of redevelopment and proposed new sites.

- Falmouth – The Shaw’s redevelopment of the former Ames store on Route One;
- Westbrook – The Shaw’s redevelopment of the former Bradlees site and the new construction of a Hannaford’s store on the former Southern Container site on Route 25;
- Freeport – The Shaw’s redevelopment of the retail site at exit 19;
- Portland – The approved construction of a Hannaford’s store on Forest Avenue (near Riverside street) and the proposed development of a grocery-anchored retail strip center at Morrill’s Corner (rumored to be Stop ‘n Shop).

In addition, the former Ames site at Mall Side in South Portland is currently under renovation to accommodate Dicks Sporting Goods (similar to the conversion of the first Home Quarters to MVP Sports and now Decathlon Sports) as well as the addition of a Gorham Savings bank adjacent to the site on the Gorham Road side (where a gas station used to be).

While interest rates are clearly driving a large portion of the market, sustained growth in revenue and earnings by local and national companies will be the true barometer of the next round of economic growth.

The Greater Portland commercial real estate market is ever changing. For up-to-the-minute insight on the market, call the professionals at Ram Harnden.