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Market segmentation creates cap rate variations

By DAVID HARRIGAN
Mainland Consultants

Each day and month as I gather material and network with industry participants, two questions that are repeatedly asked and discussed are: What is the market doing and what do you see for CAP rates?

The first question, "What is the market doing?", always seems like an ice-breaker in these discussions. What most participants in the commercial real estate market are truly eager to hear about, uncover and discuss is the CAP rate question.

Understandably so, CAP rates (overall or yield) are perhaps the most dynamic element to the valuation of commercial real estate. Changes in CAP rates can and do have a significant impact on values. Like interest rates, when changes to CAP rates take place, the market reacts. Consequently, so do values.

The strength of the recent and current commercial real estate market can be directly related to record low interest rates. Depending on the strength of the borrower and the type of real estate involved, I have seen commercial loans with rates as low as 3.5 percent, but more commonly near 5 percent.

Because CAP Rates are influenced and sometimes driven by interest rates, it holds true that when interest rates move in a meaningful direction, so do CAP rates.

By example, Robert Horvath, Marcus & Millichap Real Estate Investment Services, markets Triple NET Investment properties (normally occupied by a single national or regional brand name retailer) and reports:

"We are a bit concerned with how the recent changes in interest rates will impact our larger (over \$5 to \$10 million) deals that are still under contract; although these recent changes in interest rates tend not to have an immediate impact on our smaller transactions, at least at this point."

Prior to these record low interest rates, overall cap rates (net income/price) for well-managed real estate would routinely be 9 percent and above, and commonly fall higher than 10 percent.

Today, CAP rates above 10 percent are typically found with troubled properties (occupancy issues, debt problems, secondary locations, etc.). Conversely, most stabilized investment real estate commands less than 9 percent, while prime net lease properties such as those occupied by national retailers will trade for below 7 percent.

Unfortunately, there is no single rate that can be used across the broad band of commercial real estate. Market segmentation creates variations in cap rates which, like all investments, is a reflection of risk and reward.

So, when the question of cap rates comes up again, expect the conversation to include recent trends, suggested ranges and of course opinions, but not a single unanimous rate meant for all.



Paul Hutchinson

In 1992, Mainland Consultants hired Paul Hutchinson. At the time, Paul was an accomplished real estate broker and former owner of ERA Home Sellers. During the next 21 years, Paul established himself as Mainland Consultants premier residential appraiser. His career in real estate flourished because of his dedication and professional approach.

Next week Paul celebrates his 70th birthday, but I'm sure you will not find him at rest. For the past seven-plus years, Paul has spearheaded a grassroots food pantry at the White Memorial Seventh Day Adventist Church on Allen Avenue in Portland. Like his real estate career, Paul has become dedicated to this endeavor. Today, Paul and others at the church provide 6,000 to 8,000 pounds of groceries to more than 140 families each week. Drive by the church any Thursday morning, and you will see the depth of Paul's dedication and success. It is with great pride that I wish my co-worker and friend the very best during his retirement.



Feature transaction: Thompsons Point, Portland, Fishman Realty Group

Fishman Realty Group of Portland recently completed the sales transaction for Thompsons Point, a 25-acre development site with 100,000 s/f in five original buildings.

The Forefront Partners of Lewiston acquired the property for redevelopment as a transit oriented, mixed use complex. The site, adjacent to Amtrak passenger rail and Concord Coach service, has direct connections to Boston and points throughout Maine, New Hampshire and Massachusetts.

The Forefront at Thompsons Point received City of Portland approvals as a Transit Tax Increment Financing district in 2011. It is a \$105 million vision that would feature a convention center, sports complex, hotel, office space and transportation hub.

The city estimates the project will create 455 jobs and attract \$105 million in private investment, according to the Commerce Department. A \$1.5 million Economic Development Administration grant will help the city improve highway access, road-

ways, traffic management, safety and stormwater controls.

Located on the Fore River, the Forefront Phase I includes a 175,000 s/f Class A office building, and redevelopment of two of the historic brick buildings on the site.

Said Tony Donovan of Fishman Realty Group, representing the seller, Thompsons Point Inc.: "We are excited to see this innovative development move ahead. Our firm has been marketing this site for this type of development for over a decade."

Thompsons Point has been managed by Fishman Property

Management for more than 30 years, with Fishman Realty Group acting as leasing agents during that time.

Future plans include a proposed \$25 million transportation center for additional rail and bus operations.

City and state planners are considering streetcar connections to downtown Portland and the Portland International Jetport, passenger rail service to Montreal and a light rail service west to the Sebago Lake region of Maine. Development is expected to begin in the fall.

Feature transaction: 167 Rumery Road, South Portland, Roxane Cole Commercial Real Estate

By ROXANE COLE

Roxane Cole Commercial Real Estate LLC announces the sale of 167 Rumery Road, South Portland. The sale included a 105,600± square foot industrial property consisting of three buildings and a cell tower on 6.27± acres.

Initially when listed for sale/lease, 167 Rumery included six buildings totaling 181,160± square feet and the cell tower. Of the six buildings, three buildings were located on one side of a private rail spur that divided the property, and three were located on the other side of the rail spur.

In May 2012, three of the buildings, totaling 74,560± square feet, were sold by Roxane Cole Commercial Real Estate, LLC to an owner user.

The sale of Buildings One, Two and Three, split the larger property of six buildings, and the address for the transferred portion of three buildings became 155 Rumery Road.

Last year, the buyer completed renovations to their three build-



ings that were vacant at the time of purchase. The owner occupies Building One and leases Buildings Two and Three to tenants.

After the property was divided, 167 Rumery Road retained the original address, and the 105,600± square feet was repositioned and marketed to owner users as well as investors.

When considering purchase of 167 Rumery Road, investors took notice of the property improvements made to neighboring 155

Rumery Road by the new owner as well as its 100 percent occupancy. They focused on the existing income at 167 Rumery Road including long-term leases in two buildings and the cell tower income.

The purchaser saw upside potential with the 54,000± square foot vacant Building Five and determined that dividing that into smaller spaces would lead to filling that vacant space more quickly.

Shortly after closing on the property that included Buildings Four, Five and Six, the purchaser signed a lease that reduced the vacant space to 33,400± square feet, which is now on the market.

Roxane A. Cole, CCIM, managing member, Roxane Cole Commercial Real Estate, LLC, represented the sellers. Jean Ginn Marvin and G. Robert Marvin; Greg Hastings, SIOR, NAI The Dunham Group, represented the buyer, 167 Rumery Road, LLC.

JULY TRANSACTIONS

SALES

PH Warren Ave., LLC purchased a 48.6-acre land parcel at 421 Warren Avenue, Portland. **Agents:** Daren Hebold, CCIM, Garret Adams, MBA, Lux Realty Group.

Cradle Inn purchased the property at 658 Main St., Gorham. **Agents:** Steve Baumann, Compass Commercial Brokers; Justin Flannery, WRE Real Estate.

PHP on High, LLC purchased two 6-unit apartment buildings totaling 11,478 square feet at 232 & 236 High St., Portland. **Agent:** Jeff Davis, Town and Shore Associates.

Digitalliteracy, LLC pur-

chased 2,096 square feet of office space at 46 Forest Avenue, Portland. **Agent:** Juliana Tonini, Magnusson Balfour.

Legacy Partners, LLC purchased the NNN leased Pizza Hut located at 238 Bath Road, Brunswick. **Agent:** Debra Napolitano, Paragon Commercial Real Estate.

31 Front Street, LLC purchased the Sentinel Building, a 13,813 square foot property located at 31 Front St., Waterville. **Agents:** Greg Boulos, Tony McDonald, CCIM, SIOR, CBRE | The Boulos Company.

1717 Congress, LLC purchased the 4,408 square foot of-

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