

2023 CAPITAL MARKETS OUTLOOK

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2022 was the tale of two halves. I harken back to the 2017 Superbowl where the Patriots were down 28-3 in the first half. Unfortunately, in this analogy, we CRE professionals are Atlanta, and we all know how that story ends. The first half of 2022 was red-hot: investment sale volume tripled, compared to the first half of 2021. These phenomenal results in Maine mirrored a national trend. However, just as in the storied Falcons/Pats game, this unexpected trend did not continue, and eventually fate, in the form of rising interest rates and recession fears, flipped the game, just like the Pats.

In this report, I'll provide some quantitative and qualitative analysis to explain why this happened and offer some predictions on what the future holds. Let's hope this article has some shelf life, and that these observations age better than the proclamations by the pundits who said the game was over at halftime.

For perspective, interest rates in the United States averaged 5.43% from 1971 until 2022, reaching an all-time high of 20% in March of 1980 and a record low of 0.25% in December of 2008.

In September 2022, The Fed raised the federal funds rate by 75 bps to 3.0%-3.25%, the third straight three-quarter point increase, pushing borrowing costs to the highest since early 2008.

GLORY DAYS

In case you need a reminder that you should have refinanced or sold in 2021 (courtesy of NorthMarq). See chart below.

According to TradingEconomics.com, the federal funds interest rate in the United States is expected to be 4.50% by the end of Q4 2022. In the long-term, the United States Fed Funds Rate is projected to trend around 4.75% in 2023 and 4.00% in 2024.

The cost of debt has risen 18-23% in 2022, with another 5-7% increase in 2023, for good measure, before rates are projected to drop in 2024. Assuming investors will demand similar returns, we see downward pricing pressure reach 10-15% over the next two years from the peak of 2021.

There will continue to be availability of investment product in 2023, assuming sellers accept the new market realities. We expect steady activity, with investors capitalizing on an opportunistic environment. In summary, if you're a commercial real estate owner or investor, it's time to consult with us to obtain an updated opinion and finetune your approach. The Boulous Company looks forward to working with you to develop and execute your real estate strategy in 2023.

	DECEMBER 2020	DECEMBER 2021	JULY 2022	DECEMBER 2022
10-YEAR TREASURY	0.91%	1.48%	3.23%	3.56%
10-YEAR COMMERCIAL DEBT (LIFE COMPANIES)	2.70%-3.80% 180-290 bps spread 50%-75% LTV 25-30 yr am	2.85%-3.65% 135-215 bps spread 50%-75% LTV 25-30 yr am	4.75%-5.35% 150-210 bps spread 50%-75% LTV 25-30 yr am	5.15%-5.65% 160-210 bps spread 50%-75% LTV 25-30 yr am





PHOTOS: Brunswick Station;
1 Tourmaline Drive, Lewiston;
311 Darling Ave (Atlantic Place)

TBC INVESTMENT SALES BY THE NUMBERS

	2022	2021
NUMBER OF TRANSACTIONS	35	22
DOLLAR VOLUME	\$145,557,551	\$68,638,295
SIZE (SF)	1,592,107	552,441
CAP RATE (AVERAGE)	7.05%	7.75%

NATIONAL INVESTMENT SALES (PER JLL*)

	2022 (Q1 + Q2)	2021 (Q1 + Q2)
NATIONALLY	\$32.8 billion	\$27.1 billion
OFFICE	Up 7%	
RETAIL	Up 10%	
INDUSTRIAL	Up 22%	

SIGNIFICANT SALE TRANSACTIONS

STREET ADDRESS	CITY	SALE PRICE	SIZE (SF)	CAP RATE (%)
100 Foden Road	South Portland	\$29,750,000	77,656	6%
West Bayside Portfolio	Portland	\$25,000,000	180,000	DND
119 Lisbon Street	Lisbon	\$22,917,681	293,763	7.05%
16-22 Station Avenue	Brunswick	\$18,000,000	71,583	7.05%
100 Main Street	Westbrook	\$14,900,000	101,250	DND
44 Exchange Street	Portland	\$13,450,000	79,464	DND
311 Darling Avenue	South Portland	\$11,900,000	72,490	8.08%
4 Noble Street	Brunswick	\$11,750,000	41,000	DND
1 Tourmaline Drive & 10 Almond Avenue	Lewiston	\$10,200,000	63,840	5.40%
70 Bennett Street	Bangor	\$8,100,000	195,690	7.90%
82 Glenridge Drive	Augusta	\$8,025,000	126,286	6.90%

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SOURCES: JLL U.S. Net Lease Market Update August 2022; NorthMarq Boston News & Rates October 26, 2022, July 30, 2022, December 21, 2021, December 1, 2020; TradingEconomic.com 2022 Data