

1. EXECUTIVE SUMMARY

Topsham Development Inc. has commissioned a real estate market analysis to evaluate future development potential in the Town of Topsham. The impetus of the study was to inform the Town's ongoing efforts to update zoning along its commercial corridors. A robust understanding of the types of market-supported development that could occur in Topsham ensures that local land-use regulations can be adapted to accommodate desired development.

The study focuses on Topsham's commercial areas, which consist of two intersecting corridors. These include (1) Lewiston Road (Rt. 196) from the I-295 interchange east to US- 201, and (2) US-201/Maine Street from the Androscoggin River/Brunswick line north to the I-295 underpass. Some less intensive commercial uses are also present along Rt. 196 west of the I-295 interchange towards Lisbon.

The first corridor includes the Topsham Fair Mall regional shopping center, located immediately off I-295 and serving both town residents and shoppers from as far as 30+ minutes away. Across Lewiston Road from the Topsham Mall is a large 80+ acre site, known as the Crooker site, that is currently used for construction-related industrial uses and is envisioned in the Town's 2019 Comprehensive Plan as a large mixed-use district.

The second corridor along US-201/Maine Street has a substantially smaller commercial footprint, with primarily smaller local businesses interspersed with residential and civic uses. The Town's Comprehensive Plan envisions more distinct, mixed-use Upper and Lower villages along this corridor with a greater intensity of both commercial and residential uses.

The market analysis points to several common themes that cut across property types and that should be considered for future land use planning in Topsham.

1. Topsham and Brunswick are part of the same localized market. This lends itself to healthy competition between the two towns, but development of a certain type in one community will necessarily impact the viability of similar development in the other community.
2. Immediate I-295 access is a critical asset in Topsham that gives it an edge over Brunswick for development projects seeking to tap into a central and easily accessible location between Portland, Lewiston/Auburn, and Augusta. The vast majority of Topsham's commercial corridors are within a 5-minute drive of I-295/Exit 31, whereas some of Brunswick's commercial areas can be as far as 10 or 15 minutes off the Interstate, especially during peak traffic times.
3. Escalating real estate price points in the immediate Portland area have enabled the Brunswick/Topsham area to function as a "release valve" for cost-conscious home buyers and renters, as well as office and industrial space users. This is contributing to strong population and employment growth, expanding future opportunities for development.
4. The office and retail sectors are undergoing similar transformations—driven by the ability to work and shop from anywhere—that are resulting in reduced overall real estate footprints. High-quality physical spaces in amenity-rich locations are best poised to capture the declining demand for space, at the expense of dated building stock that is isolated from other uses. Over the long term, retail and office users will consolidate into prime areas, leaving behind underutilized commercial space in less desirable locations. Such space might be adaptively reused or redeveloped for high-demand uses, such as housing and industrial spaces.

5. Rather than attempting to spread new commercial development too thinly across all commercial corridors, efforts should be focused on developing one or two high-intensity mixed-use nodes in the Town that are integrated into distinctive, cohesive, walkable districts with housing, cultural amenities, and recreational options. This will position Topsham to better to compete with more established mixed-use areas like downtown Brunswick and Freeport.
6. Given its large size, excellent highway access, and potential for "blank slate" development, the Crooker site is a key opportunity for establishing a large mixed-use district in Topsham. Potential uses that could be integrated on the site include residential, retail/restaurant, office, medical office, hotel, and potentially low-impact light industrial uses. Certain types of civic or institutional uses might also complement private development. The site is a rare opportunity for a signature development project in Topsham.

Key findings specific to the five use types examined in the study (residential, retail, industrial, office, and hospitality) are presented as follows.

RESIDENTIAL

Topsham and the surrounding Portland residential market have historically been dominated by homeownership. However, developers are starting to respond to low vacancy rates and strong rent growth in the multifamily market. Residential development activity has ticked up substantially in the Topsham/Brunswick area over the last several years. 2020 decennial census results showed strong population growth that significantly outpaced the State's previous projections. This was driven in part by strong employment growth in the broader labor area leading up to the pandemic. Moreover, since the onset of the pandemic, rapidly rising home prices have pushed prospective

residents who may have initially considered the immediately Portland area to Topsham. This has also increased demand for rental housing as would-be homebuyers have been forced to delay purchasing decisions due to high prices and low for-sale inventory.

Based on data currently available, it is estimated that over the next five years, at least 86 new rental units could be supported from household growth within Topsham and the surrounding market. This is equal to about 17 units per year for the next five years. This likely understates true development potential given the high amount of very recent residential development activity in the area. In Topsham alone, approximately 219 rental units have been recently proposed or approved, but not yet built.

Any new rental units proposed for Topsham will compete for tenants with the 900+ units in various stages of permitting and development in Brunswick and nearly 200 units in Freeport. Topsham's competitiveness for rental housing development can be increased by locating rental projects in amenity-rich, walkable areas, including near shopping, dining, entertainment, and recreation offerings.

It is also estimated that over the next five years 295 new owned housing units (e.g. single-family homes or townhomes) could be supported from demand within Topsham and the surrounding market. This is equal to about 59 units per year for the next five years. There are currently about 35 owner units in Topsham's development pipeline.

In total, there are nearly 1,400 housing units either recently completed, under construction, approved, or proposed across the three communities of Topsham, Brunswick, and Freeport.

RETAIL & RESTAURANT

Pent up demand and government stimulus resulted in a strong 2021 for many retail sectors. At the same time, challenges such as inflation, and labor shortages continue to put a strain on the market. Critically,

e-commerce will continue to have a substantial impact on the viability of physical retail spaced.

There is sustained moderate demand for retail/restaurant space in town. The Topsham Fair Mall will continue to be well positioned as the primary location in Topsham for automobile-oriented retail space, offering convenient access by car from I-295, abundant parking, an existing concentration of offerings across retail shopping categories, and a well-trafficked corridor. These characteristics appeal to national chain retailers in deciding where to locate as well as shoppers interested in convenient, easy-in/easy-out shopping. Within the greater Topsham region, the Topsham Fair Mall competes most directly with Cook's Corner in Brunswick, and any major chain retailer interested in the region will more than likely locate in one of these two retail nodes.

The Topsham Mall and the Cook's Corner area collectively meet the retail and services needs of this broad regional trade area. These areas both compete with and complement each other. They offer a similar mix of stores and services and increasingly compete for both tenants and shoppers. The Topsham Mall offers more convenient access from points north and south due to its location along I-295 (generally between Freeport and Richmond), while Cook's Corner is better positioned to serve Bath and points farther east as far as Newcastle along Route 1.

While most of Topsham's retail space is occupied and performing well, brick-and-mortar retail space will continue to face challenges as ecommerce grows its share of consumer dollars captured. On the one hand, Topsham is expected to enjoy continued population growth, especially as housing prices soar in the Portland area and potential residents expand their search to the comparatively more affordable Topsham/Brunswick area. These factors will grow the customer base for retailers in Topsham. On the other hand, however, growth in ecommerce and a trend toward smaller store footprints will work to counteract these positives.

Retail offerings in Topsham/Brunswick generally meet the needs of residents, meaning that future stores may open to fill small or specialized market gaps, but on the whole, there will not be a need for significant growth in the retail footprint on net. The most likely tenants for unused retail spaces will not be traditional retailers, but rather service-oriented businesses or stores with a hybrid model that are more resilient to ecommerce cannibalization. Examples of likely future tenants include restaurants, health and wellness-oriented businesses (e.g., fitness studios, spas, yoga centers); personal services and beauty (e.g., salons, barber shops); consumer-facing business and professional services (e.g., realtors, shipping/printing); and entertainment/leisure activities (e.g., indoor recreation, arcade, climbing wall, puzzle/escape room).

The retail leakage analysis points to about 100,000 SF of retail space could be supported throughout the regional trade area as a result of leakage recapture and household growth of regional trade area residents, though much of this demand can be met through existing vacant space. Topsham can be expected to capture a portion of this potential demand. The largest retail gap is in the grocery category, which is expected to be filled by the recently announced Market Basket supermarket coming to the Topsham Fair Mall area. Topsham's ability to compete for additional retail market share will be dependent on local household growth as well as offering retail destinations that are differentiated in the market.

INDUSTRIAL

In 2021 the regional industrial market was characterized by increasing prices in sales and leasing and record-setting transactional values. Low industrial inventory has been met with steady demand, with demand for cannabis and craft-brewing space continuing to impact the market. According to NAI The Dunham Group, new inventory in the market has been quickly absorbed, with landlords having the ability to be selective. In particular, small to medium sized industrial spaces are

highly competitive. Expanded industrial-zoned land in the greater Portland area is expected to meet the growing regional demand. The industrial outlook is positive for the region, with steady demand and limited disruptions from macroeconomic challenges expected. Logistics space represents the largest portion of current inventory and of demand for new space.

Regional demand could support approximately 200,000 SF of new industrial space. Approximately half of this demand is projected to be for logistics space, with the remainder being split between specialized industrial and flex. In nearby Brunswick Landing there are 15 industrial zoned lots totaling over 50 acres for sale. This land could potentially accommodate a portion of the region's projected industrial demand. These sites have the benefit of being essentially "shovel ready." Topsham has a low inventory of industrial space overall and does not have a sizable inventory of shovel-ready industrial sites. The Town has entertained the potential of extending utilities infrastructure along Lewiston Road to the west side of I-295 to serve potential industrial sites. If this land were shovel-ready today, it is anticipated that it would quickly be developed given the strength of the industrial market and its favorable location with direct access to I-295. Though these sites would realistically not be viable for development for at least several years, all indications point to continued industrial demand into the foreseeable future.

OFFICE

With the shift to remote and hybrid working in an already sluggish office market, commercial office space has been one of the hardest hit markets of the pandemic. With many employers offering opportunities to continue working from home fully or partially, it is anticipated that overall office demand will not return to pre-pandemic levels. The most competitive office space will be high-quality space in amenity-rich environments that give workers a reason to go into the office.

Locally and regionally, demand for medical office space is expected to be stronger than that for general office space. Aging populations and the shifting of many hospital operations into ambulatory care facilities have contributed to increased national demand for medical office space. Both nationally and locally, this need is expected to increase over time.

Need for additional office space in Topsham is minimal, though there are opportunities to entice existing office users from other parts of the region into new or updated amenity-rich space in Topsham. Given that Topsham is not currently an office employment hub in the region, such tenants would typically be smaller professional services firms (e.g., lawyers, accountants, consultants, etc.) that are already based in town or nearby communities.

Over the next five years Topsham could support about 13,000 SF of new medical office space based solely on demand from within Topsham. Topsham could also capture a portion of the demand for nearly 240,000 SF of new medical office space in the broader metro area.

HOSPITALITY

Early in the pandemic, the lodging industry suffered a crushing blow, with demand for hotel rooms virtually disappearing. Fortunately, hotel demand in relatively far-flung destinations like Midcoast Maine has recovered more quickly than in larger cities. Topsham itself lacks any significant lodging properties, with the local hotel market concentrated in Brunswick. According to CoStar, occupancy rates in the Midcoast lodging market (extending along the coast from Topsham to Belfast) are now higher than they were in 2019. By contrast, occupancy rates in the greater Portland lodging market (Cumberland County) remain below pre-pandemic levels. Situated between the two markets, hotels in Brunswick fall somewhere in the middle. While a return to leisure travel has been positive, low rates of

business travel are continuing to impact the market. Labor shortages have become an additional challenge to the industry as well.

In the short term, development potential for a new hotel in Topsham will remain low but will likely become a stronger possibility as the pandemic fades. In particular, there is a need for an upper mid-scale/upscale option in the market, with the Brunswick Inn currently the only option in that category.

Topsham could reasonably support a small hotel in the 50-100 room range in the next five years, assuming no other new hotel developments in the immediate area. Pairing the hotel with meeting and event space could increase its competitiveness against existing accommodations options in Brunswick.

DEVELOPMENT FEASIBILITY ANALYSIS

A return on investment (ROI) feasibility analysis was completed to gain insights into the development potential of multiple property types within Topsham. The purpose of the ROI analysis is to determine the general financial feasibility of developing these property types within the town. While the market analysis shows demand potential for certain use types, it also important to demonstrate whether new development of these uses is financially feasible given construction costs, lease rates, operating expenses, and financing terms. The analysis provides a high-level understanding of the types of uses that are likely to be built in Topsham in the future given these considerations. The following five property types were modeled:

1. Medical Office – 12,000 SF building
2. Distribution Center – 200,000 SF building
3. Hotel – 80 rooms
4. Mixed-Use – 10 Apartments above 5,000 SF Retail/Restaurant
5. For-Sale Townhouses – 24 two-bedroom units

The results of the analysis point to strong financial feasibility for medical office, hotel, and townhouses; borderline/moderate feasibility

for a distribution center; and limited financial feasibility for the mixed-use concept.

Distribution center lease rates have not yet risen to a level that would support speculative construction in Topsham, but are quite close to the necessary threshold. Built-to-suit distribution space for a specific tenant/user would be a more likely scenario under current market conditions in Topsham.

While market demand for a mixed-use concept is strong, relatively high construction costs and modest retail rents (which are constrained by asking rents for available space at competing standalone properties) means that a project of this relatively small scale would not be likely to generate a sufficient financial return to a potential investor/developer. There are several ways the project's economics could be improved:

- Reducing average unit size, thereby increasing unit count
- Substantially raising rents (likely not a viable option in the short term)
- Increasing residential density and height (i.e., allowing more apartment units per acre of land)
- Scaling down the less-profitable retail component of the project
- Bundling the project with other residential development to increase the overall ratio of residential to retail space

OVERALL RECOMMENDATIONS

This market analysis should be used to inform Town decision-making around encouraging or discouraging certain types of development in light of market trends and pressures. Overall, the analysis points to several findings:

- The Town can expect a steady flow of residential development proposals given strong demand for residential development of all types.

MARKET ANALYSIS OF TOPSHAM'S COMMERCIAL CORRIDORS | TOPSHAM DEVELOPMENT, INC.

- Demand for both distribution and other specialized industrial space is strong regionally, though the lack of shovel-ready sites in Topsham will hamper development without public action to accommodate it.
- Interest in office and retail development will be relatively muted but can be fostered by encouraging integration with residential and other uses in mixed-use districts.
- The market supports construction of a small to mid-size hotel in Topsham. Integration with a conference center and incorporation into a mixed-use district would further bolster developer interest.
- Use this market analysis as a marketing tool for potentially interested developers, businesses, and investors.

We recommend the following next steps for TDI and the Town:

- Build on Topsham's 2019 Comprehensive Plan to create one or more Corridor or District Master Plans that envision future development and lay out policies and strategies for achieving the vision.
- Assess economic and fiscal impacts on the Town associated with various development types. Include consideration of public costs, e.g., infrastructure investments, needed to support such development in certain areas. For example, this would include a return-on-investment analysis of extending utilities along Lewiston Road to the west side of I-295.
- Adjust zoning and land use policies in targeted areas to support the type of development desired, ensuring that mixed-use buildings can be easily accommodated.
- Ensure available incentive programs (e.g., TIF, impact fee waivers, etc.) are aligned with desired development outcomes.