

Bright Market for Lee County Retail

By Mark Alexander, CCIM

Prior to Thanksgiving, I walked through the Bell Tower Shopping Center at 6 pm on two consecutive Friday nights. It was startling to see half the stores with no customers and the other half with a smattering of customers. Admittedly, the Bell Tower is high end and may not be indicative of all Lee County shopping centers...but still. There were a few store managers wearing stoic faces standing outside their front doors. They were all doing the same thing...looking wistfully for customers. I chatted for a moment with the friendly manager of Cru, Shannon Yates. He said, "The snow birds come down after Thanksgiving, so not to worry". I hope he's right...but still...I was a little worried.

I could almost hear Bing Crosby singing in my ear, but the words were coming out, "I'm dreaming of a green Christmas". That's what you get when you earn a living on commission in commercial real estate brokerage. You become a hopeless optimist and hum old tunes when you get a little worried.

Because I'm a numbers "kind-of-guy", I decided to take a hard look at the fundamental Supply & Demand figures for the Lee County Retail market to see if my "little worry" was warranted. It turns out it wasn't. Here's what I learned:

Retail Supply:

In the 4th quarter of 2005 we had total retail supply of 39.2 million square feet of space. Today (4Q 2007) we have total supply of 42.6 million SF. Our retail supply grew by 1.7 million square feet per year or a total of 3.4 million SF over the past two years. For a little perspective, consider that the Edison Mall is roughly 900,000 square feet. So new retail construction over the past two years roughly equaled 3.7 Edison Malls. That's a lot of T-shirts. We have never added this much retail space in any other two-year period in the history of Lee County. This data begged the next questions, "Did our retail demand keep pace?" and "Are we so overbuilt now that it will take us years to come back?" We have seen with painful clarity what can happen in the residential market when you add a lot of supply while demand drops off substantially.

Retail Demand:

The demand or total retail space occupied in Lee County in the 4th quarter of 2005 was 38.8 million square feet. Today (4Q 2007) we have 41.1 million SF occupied. Lee retail demand kept pace nicely by increasing 1.15 million SF per year which equals new total space occupied of 2.3 million square feet over the past two years. This means new retail tenants in Lee County over the past two years (that were never here before)...could fill the size of 2.5 Edison Malls. That is very good demand. As you can imagine, the brunt of this expansion was attributed to the new shopping centers known as Gulf Coast Town Center (Alico Road & I-75) and Coconut Point Shopping Center (US 41). But what happened to vacancy rates during this record setting retail expansion?

Retail Vacancy:

The vacancy rate is the bottom line. It is your “tell all” report card. The vacancy level tells you whether it is a “tenants market” (i.e. too much vacant) or an “owner’s market” (too little vacant). Is there ever “just the right amount vacant”? I think “just the right amount vacant” is between 7% and 10%. This is the range where some degree of balance is achieved in the market between owners and tenants. In this 7%-10% vacancy range, the tenants really don’t have an advantage over the owners....and the owners don’t really have an advantage over the tenants. It’s kind of like “détente” in world politics where both sides agree not to blow each other up.

Lee County Retail vacancy in the 4th quarter of 2005 was an incredibly low 1% which equaled 450,000 SF of vacant retail space. You remember the end of 2005, don’t you? We had that “Perfect Economic Storm.” The real estate market peaked higher than it had ever gone before. The stars in the universe briefly aligned and people seemed to have so much money you would have thought they were printing it in their living rooms. In late 2005, the shop managers at the Bell Tower never came out of their stores on Friday nights at 6 pm. They were too busy with customers...lots and lots of customers. So in the merry old days of 4Q 2005, how could you not think you were bullet proof. Once upon a time in 2005, retail developers took cheerful note of this “once-in-a-life-time” one percent vacancy and decided to

build lots and lots of new shopping centers. Since it takes a year or two to construct new commercial buildings, a steady stream of future new retail product was initiated in 2005.

Lee County Retail vacancy in the 4th quarter of 2006 inched up to 3% and our vacant space went from 450,000 SF to 1.1 million square feet in the span of just 12 months. Three percent was still a real low vacancy rate (i.e. an “owners market” where you could raise rents and still get away with it) but the residential real estate market was starting to cool in 2006. Most home sellers in 2006 proved once again that “de-Nial” was not just a river in Egypt. They did not go quietly into the night as their home prices went down. Home sellers went kicking and screaming with their lower values into 2006 (and now 2007) as residential brokerage brethren will attest. You know how it goes. If you are not getting your price, forget about this supply and demand mumbo jumbo, it must be the broker’s fault, right? Oh the joy it must have been...to be a residential real estate broker these past 18 months.

The 4th quarter of 2007 is not complete yet, but preliminary reports from Co-Star show Lee County Retail has 2,367 properties with an average rental rate of \$18.80 per square foot, totaling 42.6 million SF of which 1.5 million SF is currently vacant for a 4% vacancy factor. This is still a very good low vacancy which sustains an advantage for retail owners over tenants today. But what about tomorrow? What about that pipeline of new retail product coming on line and what effect will it have on future vacancy?

Based on properties currently under construction, there is 1.2 million square feet of new retail product due to hit the market by 4Q 2008 bringing us to a projected vacancy of 6%. So in just three years, we went from 450,000 SF vacant (in 4Q 2005) to 2.7 million SF vacant projected for 4Q 2008. But if people don’t start shopping more frequently than they have been recently, there’s a chance that some retail stores could eventually close over the next 12 months. This could shrink our retail demand that could cause our Lee County Retail market vacancy to bump up as much as a point and possibly reach 7% vacancy by 4Q 2008. If this “worst case retail scenario” occurs due to our slowing economy, it would mark the end of an “owners market” and the transition to a “state of neutrality” between

retail owners and tenants. But even at this worst case projected 7% retail vacancy for 4Q 2008, that would still be a stable, nicely balanced market with moderate vacancy. I am no longer worried. The numbers support a strong retail market in Lee County. As they say in Jamaica, "No worries Mon."

Note to Bankers: Loans on retail properties are a safe bet.

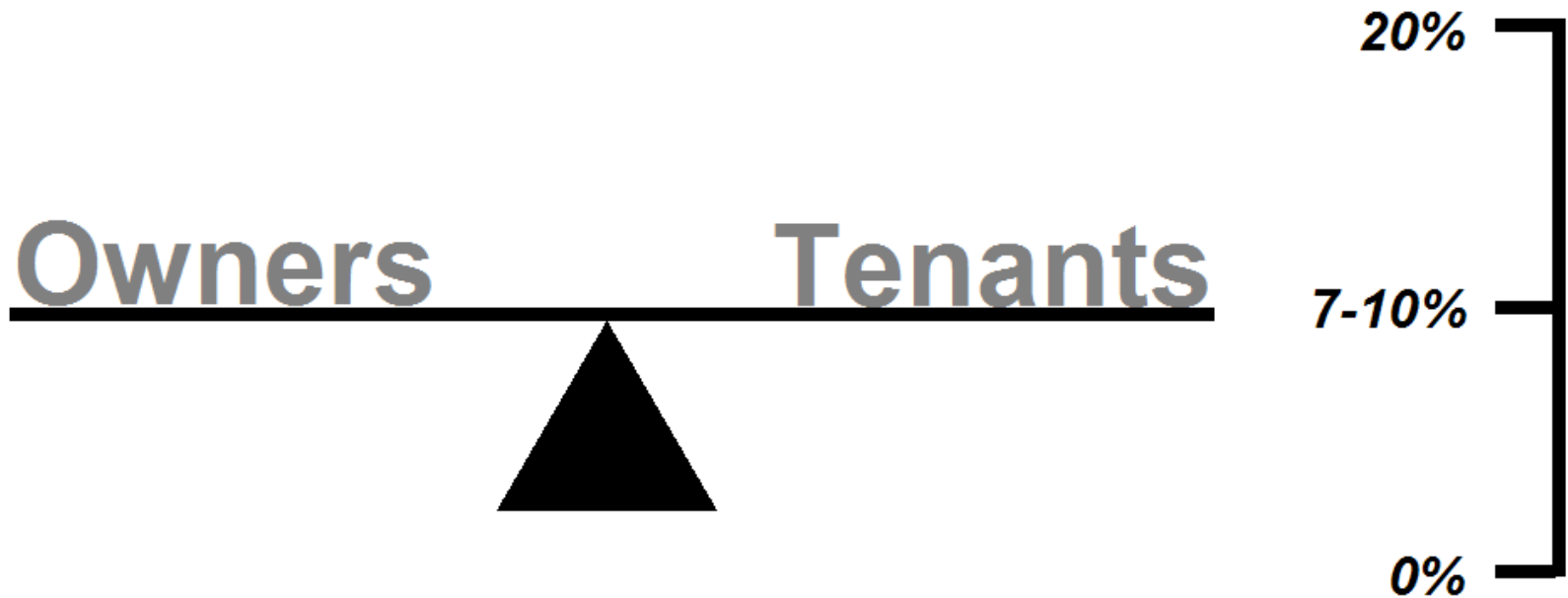
Note to Retail tenants: "If your leases are due to expire in the next 12 months; you can expect your owner to be more reasonable...than the last time." Just picture Scrooge...half way through the movie where he starts to realize being kind...is not such a bad thing.

Note to Shoppers: Please start shopping a little more. We all play a part in this big economic puzzle called the economy. We can help lift ourselves out of this correction if we each do our small part. I know the road is a little rocky now, but the future is so bright, I am convinced we are going to need sunglasses. Unlike Bing, I'm dreaming of a green Christmas...and so are a lot of others. Be kind to your waiters and waitresses. We are all in this together.

So you see, not all segments of the real estate market are hurting right now. The retail property market in Lee County is fundamentally strong today due to a high occupancy rate of 96%.

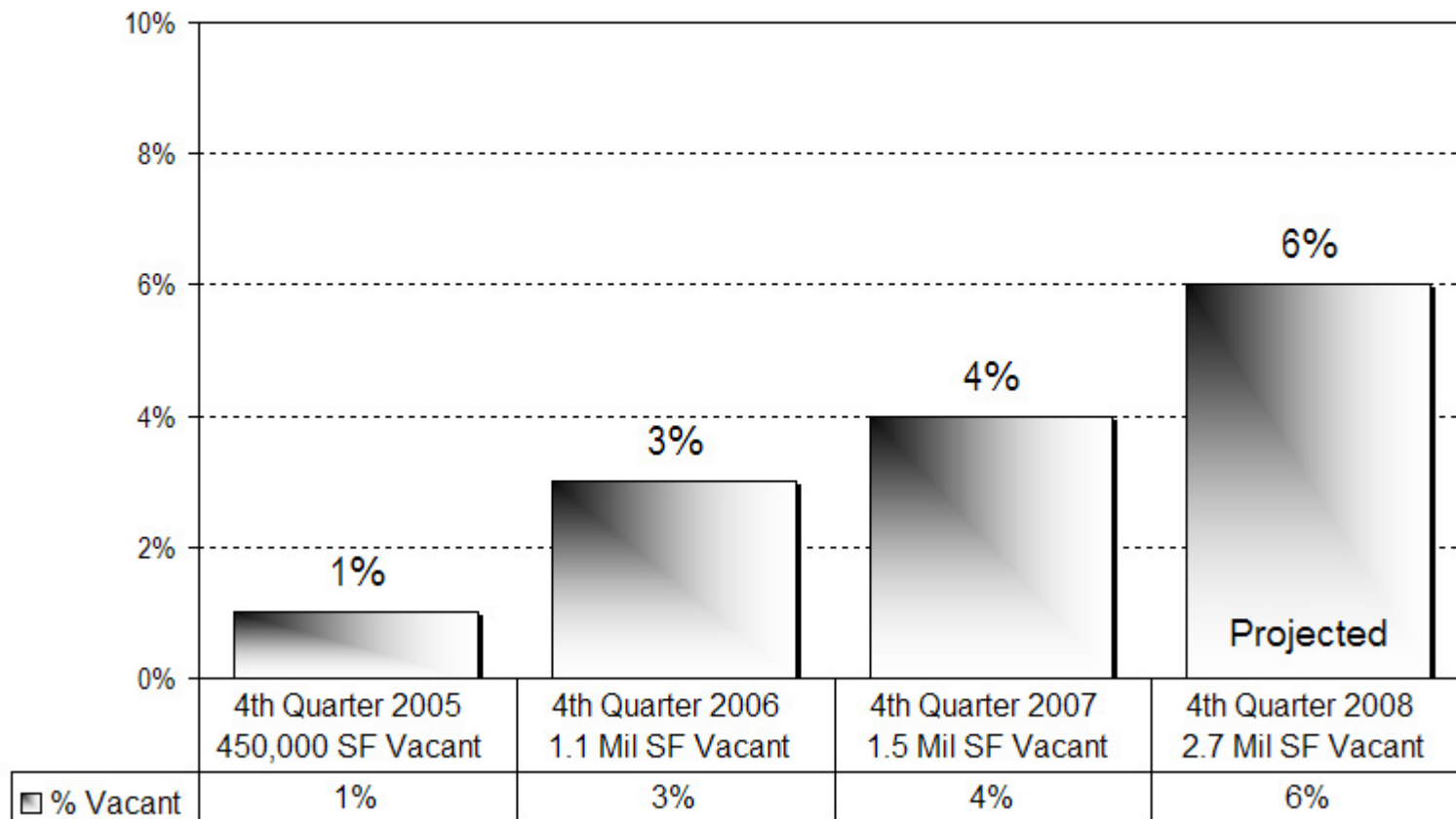
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Supply & Demand



- 0% - 6% Vacancy = Owner Market**
- 7% - 10% Vacancy = Balanced Market**
- 11% - 20% Vacancy = Tenant Market**

Lee Retail Vacancy



Source: Co-Star