

COMMERCIAL CONNECTION

Local office sector lags

By Mark Alexander

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The Southwest Florida industrial sector, from Naples to Fort Myers, is stabilizing and improving at a good pace. The same, however, cannot be said for the Southwest Florida office market.

The two best indicators used to gauge the health of these sectors are vacancy and absorption rate.

Vacancy

A balanced market has typical vacancy rates between 8 percent and 10 percent. The higher a vacancy rate climbs above 10 percent, the "softer" the market becomes as rental terms for tenants become more favorable.

Overall, the Southwest Florida industrial market improved from a 13.6 percent vacancy in June 2011 to a 13 percent vacancy at the end of September 2011. During this time, the Southwest Florida office sector improved slightly from 18.8 percent to 18.6 percent vacancy. Our industrial market has less vacant space and is renting at a faster rate than the office market. But a closer look at the sub-markets reveals which segments are doing better than others.

Vacancy: Lee

The weakest part of Lee County is the Airport/Gateway area, where the office segment sits bloated with excess space at 44 percent vacancy, while its industrial sector has a hefty 24 percent vacancy.

The next softest segment is Bonita/Estero with a 29 percent office vacancy, but with a somewhat reasonable 12 percent industrial vacancy. Cape Coral has a 19 percent office vacancy while its industrial segment enjoys a more moderate 14 percent vacancy. The Fort Myers area has 17 percent of its offices vacant, with 18 percent of its industrial spaces vacant. One of the

smallest sub-markets is downtown Fort Myers, which has 15 percent office vacancies and an 18 percent industrial vacancies.

Vacancy: Collier

Naples shows a soft 21 percent office vacancy factor. The East Naples sector has a decent 13 percent industrial vacancy rate while North Naples is strong with a 10 percent industrial vacancy.

Absorption

Positive absorption tells you how much more space was rented in an area from year to year. Negative absorption tells you how much space tenants have vacated from a particular area, compared to last year. Sub-market absorption statistics tell us where tenants are moving to (i.e. positive absorption), and where they are moving from (i.e. negative absorption). Absorption statistics indicate which sub-markets are hot, and those that are not.

Office absorption

All the main sub-markets in Lee County lost office tenants (negative absorption) through the first nine months of 2011, except the Fort Myers sub-market that showed a small positive gain (positive absorption) of 30,000 square feet of rented space. Downtown Fort Myers was the worst, with 67,000 square feet of previously rented office space going dark. Bonita/Estero lost 38,000 square feet of fully rented office space; Cape Coral lost 35,000 square feet; and the Airport/Gateway area lost 30,000 square feet of office tenants.

Naples lost 68,000 square feet rented office space over the first three quarters of 2011.

Office market recovery?

Our office market has not hit bottom yet, unfortunately. I estimate the

Southwest Florida office market will bottom out during the first half of 2012. The office sector recovery is closely tied to jobs. Lee County unemployment was 13.2 percent in November 2010 and it came down to 10.5 percent in November 2011. The type of new jobs created will determine which commercial real estate sector benefits most in 2012.

We are moving in the right direction, but it will be painfully slow going in 2012 for the office market. The current rate of job growth locally, statewide and nationally is not enough to create confidence just yet. At the rate we are going, we will not likely see what I would characterize as a good year for the Southwest Florida office market until 2014. The good news for tenants is they will continue to see competitive low rents and high improvement concessions from landlords. Office tenants will continue to move up in quality of space, while demanding and receiving excellent rental terms in 2012.

Industrial absorption: Lee

All the main sectors in the Lee County industrial market had positive absorption through the first nine months of 2011. It appears that our improved unemployment rate over the past year favored the industrial market over our office market. Some industrial segments are doing better than others. Industrial tenants in Lee County are chasing the lowest rents as they relocate to sectors with the highest vacancy rates.

The Airport/Gateway (24 percent vacancy) area and northeast Lee County (23 percent vacancy) each showed the best absorption in the county at 100,000-plus square feet of new space rented over the first nine months of

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2011. Fort Myers (18 percent vacancy) showed a positive 80,000 square feet of new space rented. Cape Coral (14 percent vacancy) and Estero/Bonita Springs (12 percent vacancy) showed a respectable 50,000 square feet each of positive absorption. These positive industrial absorption figures are relatively small compared to bygone years of robust growth, but at least they are positive, unlike the Lee office market with its mostly negative absorption.

Industrial absorption: Collier

There are two main industrial sectors in Collier County. North Naples is the clear winner with an enviable 10 percent vacancy rate with positive absorption of 30,000 square feet through the first three quarters of 2011. East Naples' industrial sector is older and 26 percent larger than North Naples. East Naples has a

13 percent vacancy and saw negative absorption of 40,000 square feet. This is a good example of industrial tenants moving up to newer buildings, from East Naples to North Naples.

Industrial market Recovery?

There is still a considerable amount of vacant industrial space that needs tenants in Lee County. Property owners have far to go before they get back to a stable 10 percent vacancy. At the rate we are going, 2013 should be a pretty good year for our industrial market. This leaves a lot of struggling through 2012 as we slowly chew through our vacant industrial space.

Uncertainly abounds in the business psyche due to the state of our volatile economy. If we can remove some of this uncertainty in 2012 a faster rate of business growth could occur.

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