

Roller-coaster office market continues in

"What a long, strange trip it's been."
— "Truckin'," Grateful Dead, 1970

The Lee County office market gyrations from 2005 through the beginning of 2011 are best summed up by those lyrics from Jerry Garcia, Bob Weir, Phil Lesh and Robert Hunter. The trip continues in 2011.

Lee County's office market has gone from feast to famine in just six years as unemployment rates skyrocketed and decades-long population increases in Florida abruptly came to an end, causing office vacancy rates to accelerate faster than anyone imagined possible.

The roller-coaster ride at Disney's Big Thunder Mountain is no longer needed to get the heart pumping wildly. Just become an office building developer in Southwest Florida to achieve the same rush. The only good news for our office market is that we appear to have lived through the worst of it and a stable platform lies ahead.

Population growth

There was always a direct correlation between population growth and demand for office space in Florida. When population increased annually as it did steadily over the last three decades, so too did demand for more office space. This factor is monitored closely by office building developers.

Positive Florida population growth used to be a norm and a foregone con-



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clusion for decades. But that all changed in 2009.

Lee County population continued to increase from 539,000 in 2005 to 590,000 in 2007. Then it peaked at 623,000 in 2008 followed by its first ever decline in 2009 to 615,000. We narrowly avoided a two-year decline in Lee County by posting an ever-so-moderate 616,000 population in 2010. Flat or moderate population growth certainly beats negative.

Job recovery slow

According to economist Randy Anderson of the University of Central Florida, who spoke last month at the 11th annual CCIM Outlook Conference, recoveries always come in this order: Gross domestic product first increases, then jobs recover followed last by the return of market fundamentals, which include the office market.

After a few years of poor to uncertain progress, the U.S. GDP displayed positive growth of 3.25 percent in 2010 and the U.S. Department of Commerce expects a 3.7 percent increase in 2011 followed by an even better anticipated increase in 2012. The fact that our long-awaited recovery has begun is the good news.

Unfortunately, it is expected to take two to five years for jobs to come

back to main street, where we reach a more normal range of 5 to 6 percent unemployment from today's 10 percent unemployment nationally. So expect a slow crawl in job growth over the next five years.

This means it will continue to be a soft office market for a few more years in Southwest Florida as we slowly churn through our excess office capacity which sits now at a bloated 16 percent vacancy.

Not out of the woods

In 2005 to 2006, Lee County enjoyed 2 to 3 percent unemployment. It jumped to 6 percent in 2007 and to 9 percent in 2008. We had a false hope of it moderating at 10 percent in 2009. Then along came 2010, where we were slammed with 13 percent unemployment while other economic factors appeared to be moderating.

So we are not out of the woods yet. When you lose jobs, office spaces that once bustled with workers suddenly go silent.

Future is bright

The Lee County commercial real estate market will continue to tread murky waters in 2011 as we look to the north with hope for any indication of economic stability. Our increasing GDP is a great sign for the start of a recovery.

We want people once again to be able to retire up North, sell their homes and commercial real estate investments and sell their businesses at

decent values. This will allow many of our country's retirees to resume their substitution of their brutal snow storms up North with our swaying palm trees in Florida.

This condition will return our economic stability and will bring back better times to us all. It will happen. It always does in these cycles. The future in 12 to 18 months looks brighter. We just have to push through the pain to get there.

Continuous decline

The year 2005 was an office market dream year in Lee County with a 3 percent vacancy factor even after delivering 600,000 square feet of new space to the market (according to CoStar). Our population had just increased to 539,000 and unemployment was only 3 percent. Oh, the carefree times of those bygone years, we miss you fondly.

In 2006, office vacancy jumped to 7 percent as office developers could not build fast enough after seeing the great numbers of the previous year. We added 1.4 million square feet of new office space in 2006. Our county population grew handsomely to 571,000 and unemployment went down to 2 percent. Champagne flowed freely without a care in the world. Even though we had a lot of new office space in the pipeline for future development, the climbing vacancy rate was ignored due to an irrational expectation that it would soon be filled.

The year 2007 showed an even sharper jump in

office vacancy to 11 percent while unemployment suddenly jumped to 6 percent as 1.2 million square feet of new office space was added to the market. This caused mild concern. But fears were quieted when we saw our population growth continue unabated with a posting of 590,000 in Lee County for a 3 percent increase.

In 2008, Lee County got a wake-up call. The party was over. Office vacancy jumped again, this time to 14 percent while 1.1 million square feet of new office space was delivered. Unemployment jumped to 9 percent. The only thing that kept office developers from jumping off the Sanibel Bridge in 2008 was our old friend population growth, which increased by 6 percent to 623,000 in Lee County.

All was not completely lost in the office market as we could just keep adding more people each year to save us from our excesses.

The year 2009 arrived like the first harsh frost after a warm summer. We saw office vacancy spike to 17 percent while 500,000 square feet of new office space was delivered.

Unemployment climbed to 10 percent. But the jaw-dropping statistic was that Lee County saw its first-ever population decrease to 615,000. Some claim hell froze over that year. The only good news was surviving tenants could now get great deals on rentals.

Last year is the year most of us would like to forget. Lee County unemployment climbed to 13 percent, leading most of

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America while 230,000 square feet of new office space was delivered.

Mercifully, population did not go down further but moderately increased to 616,000. A whisper of better news finally saw our office vacancy cease its awful ascent and actually step down to 16 percent vacancy by the end of 2010. This vacancy drop marked a turning point for the office market.

This year should see Lee County bouncing along the bottom with continued great deals for tenants and buyers of office properties.

In fact, 2011 looks like a 30-year window of opportunity for buyers as values remain depressed at 1996 levels, many lower than replacement values. Cap rates are up and 10 percent cap rates have become common once again. All this is occurring at a time when interest rates remain historically low.

Many office owners have loans coming due in 2011, which will cause forced sales at still lower prices when borrowers don't have the extra capital required to renew mortgages at today's restrictive lending terms coupled with today's lower appraised values. This condition should have a destabilizing effect, dampening our Southwest Florida recovery somewhat.

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