COMMERCIAL CONNECTION

Market is showing signs of recovery

We are finally seeing signs of recovery in the long-slumping commercial real estate market in Southwest Florida.

A full recovery will certainly take some time, but recent statistics from Costar show that we bottomed out over 2011 in the three main sectors of commercial real estate in Southwest Florida. The period over the past 10 years has been one of unprecedented change in the commercial real estate market that is unlikely to be seen again in our children's lifetimes.

MARK ALEXANDER

Industrial market

Southwest Florida had a stable market back in 2002-03 with top industrial buildings selling at $45 per square foot and renting as high as $6 psf gross, with no common area maintenance charge. Hurricane Charley then passed through the region in August 2004 and took with it about 25 percent of our roof structures. This created a two-year backlog of repair work that included most screen enclosures.

This caused a spike in demand for industrial space that was unique to Southwest Florida. Simultaneously, 2005 was the start of the biggest real estate bubble our nation has ever experienced, fueled by lax credit policies. During these bubble years of 2005 to 2008, industrial building sale prices peaked around $150 per square foot and rents got as high as $14 per square foot triple net (i.e., base rent plus CAM).

We have since come full circle. Today we have industrial building sales topping out at around $45 per square foot and rents topping out around $6 per square foot gross. Looking at the current industrial market conditions, the calendar could easily read 2003, if not for the financial and emotional scars we carry from this wild ride up and down the bubble.

The local industrial market bottomed out early in 2011 with some loss of previously rented space (negative absorption). But since then, we have seen strong positive absorption (new rented space added to the market) each quarter. The three industrial market segments are: flex, warehouse and industrial. According to Co-Star, 2011 showed net annual positive absorption of 1.748 million square feet broken down as follows: 256,000 square feet for flex space; 618,000 square feet for warehouse; and 874,000 sf for industrial.

The beginning of 2011 started with a vacancy rate of 25 percent for flex space but ended the year at 19.9 percent. Warehouse space last year started at 13 percent vacancy but ended at 11.6 percent. Industrial started 2011 with 15 percent of space vacant and ended the year at 12.7 percent.

This is very good annual improvement for the local industrial market. The small employment gains in the area helped the industrial rental market directly.

Office market

Compared to the industrial market, there is much more pain in the Southwest Florida office market with the office bottom lightly touched in the first half of 2011. This was indicated by negative absorption of 217,000 square feet during the first half of 2011 followed by positive absorption of 174,000 for the second half.

This second-half positive absorption showed promise, but keep in mind the entire year still averaged a negative 43,000 square feet of office space absorption. Office related employment has not come back

See ALEXANDER » F9

Alexander

Continued from F6

yet as our industrial jobs have.

The local office market has three segments: Class A of 3.6 million square feet; Class B of 19.3 million square feet; and Class C of 8.7 million square feet.

The direction of tenant relocations last year appeared to move toward the middle. A small portion of Class A tenants moved down to more affordable Class B space while many Class C tenants moved up to Class B space for discounted rents from motivated landlords.

As we begin 2012, Class A space suffers most with 22 percent vacancy.

Class B is a little better with 17 percent vacancy.

Class C space enjoys the lowest rate of 12 percent office vacancy.

Due to varying degrees of distress among owners, asking rental rates can swing widely and are often viewed as a "confused sea" by tenants. But leases getting signed are with landlords that keep their properties in top condition; pay for the tenant space build outs; offer the lowest rental rates and throw in a little free rent up front to sweeten the deal.

Tenants have so many choices today and they are trending up in quality of location and quality of space for lower rents when they do move.

It behooves office owners to remove every bit of deferred maintenance from their properties (inside and out) in order to attract new tenants in today's highly competitive office market.

Some parts of the area office market are more distressed then others. Office vacancies at the end of 2011 show: 28 percent for Estero/Bonita Springs; 22 percent for Cape Coral/North Fort Myers; 18 percent for Collier County; 15 percent for Charlotte County and Fort Myers; and 14 percent for Lehigh Acres.

Retail

The Southwest Florida retail market is the strongest segment of the commercial market. It started 2011 with a 9 percent vacancy and finished the year at 7.9 percent vacancy. I consider this a balanced segment where neither tenants nor landlords have much leverage over the other.

It hit a hard bottom in the first quarter of 2011 while posting negative absorption of 83,000 square feet. But the next three quarters showed an impressive positive absorption of 880,000 square feet of retail space.

While the region's retail vacancy and absorption statistics show an otherwise healthy market, retail business is forever tied to consumer spending.

Today's shaky economy continues to present sufficient unease for all parties, inhibiting a stronger recovery in retail.

When confidence returns, retail is poised for a faster recovery than any other commercial segment in Southwest Florida.

– Mark Alexander is national director, medical office sale/leasebacks, for Sperry Van Ness in Fort Myers. He can be reached at 239-826-4174.