

**REAL ESTATE BRIEFS | G2**  
Naples Realtor board names  
2009 officers and directors

**MORTGAGE RATES | G2**  
Rates once again fall to new  
lows — lowest since 1971

**IN THE TREN**  
Janie Hooke  
handles neg

# Real Estate

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## REAL ESTATE VOICES

Community Life:

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### When the manager lives close to home

Association managers who live in a community may be good or bad, but have a good termination clause **G4**

Commercial Connection:

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### Office space market follows job market

When the jobless rate was low, developers built a lot of space — now the room is there but not the demand **G5**

Commercial Property:

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### Latest deals in leases and land purchases

Company pays \$1.3 million for warehouse space in Fort Myers, other deals **G11**

## REAL ESTATE BRIEFS

## COMMUNITY SNAPSHOT: EAST FORT MYERS



PHOTOS BY DON MANLEY/THE NEWS-PRE

Traffic along Lockett Road in east Fort Myers, near the approach to I-75.

# Affordable homes mix with commerce

Long-established neighborhoods have diverse population



# Market for office space

Current high vacancy rates favor tenants

Randy Bachman's lyrics from his BTO (Bachman Turner Overdrive) hit song, "Taking Care of Business" seem to pop into mind whenever I think about our job market: "Look at me I'm self-employed, I love to work at nothing all day." This could become the unwanted theme song for many out of work people today as unemployment rises in our area.

## DEMAND

Unfortunately for Southwest Florida, the office market follows the job market. When employment rose across the United States from 2004 to 2006 as it glided up from 2 percent to 3 percent growth, the demand (i.e. occupancy) for office space rose along with it. This made office developers smile as they eagerly planned more office buildings to construct and keep pace with this glorious rising demand. But since 2006, our national employment growth has fallen to 0 percent in 2008. The supply and demand balance for office space can be tricky to maintain by office developers who typically need close to 2 years to finish an office building once they commit to a project. Changes in annual employment growth are known to cause premature gray hair for many office developers across the country.

In Southwest Florida, we have had more dramatic swings in employment growth. In 2004 Southwest Florida had hot employment growth of 11 percent thanks largely to Hurricane Charley repairs. In 2005 our employment growth froze to negative 4 percent as most of the "one-time job related hurricane work" was completed. In 2006 our real estate and construction market was complete-

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ly overheated and our employment growth scorched back to 6 percent positive growth. As the economy chilled over the past two years due to the crisis of faith in Wall Street capital markets, our Southwest Florida job growth iced over at negative 4 percent growth in 2007 and thawed a tad in 2008 to a negative 3 percent growth. This explains why very few office developers in Southwest Florida have hair on their heads today. If it didn't fall out from stress, they have long since pulled it out.

## SUPPLY

In a perfect world, our office supply would grow at the same rate as our employment grows. Dallas/Fort Worth is a good place to own an office building today since their employment growth over the last 5 years was +14.5 percent while their office supply growth was +6.4 percent for a difference of +8.1 percent. Demand has outpaced supply of office space deep in this heart of Texas where office developers undoubtedly sport full heads of wavy hair.

As examples of stable office markets, consider Atlanta and Chicago. Over the last five years in Atlanta, their employment growth was +7.9 percent while their office inventory growth was +6.7 percent for a difference of +1.2 percent. Over the same 5 years, Chicago had +5.5 percent growth in employment while their office supply had +3.9 percent growth for a difference of +1.6 percent. These are two good examples of demand keeping pace nicely with supply for a more balanced office market.

Now let's look at an example of demand dropping off quickly

while office supply grows too fast. SW Florida (i.e. Lee, Charlotte and Collier counties) had negative employment growth of -5.3 percent over the past 5 years while its office supply grew by +12.6 percent for a negative difference of -17.9 percent. You can see we have more of a problem here than Atlanta, Chicago and Dallas. But how does Southwest Florida compare with other Florida cities? Tampa/St. Petersburg had employment growth of +3.2 percent over the past five years while its office supply grew by +7.8 percent for a difference of -4.6 percent. But why didn't Tampa get more overbuilt like Southwest Florida? Because they did not have their county impact fees triple like Lee County did on Jan. 31, 2007, which caused many Southwest Florida developers to rush to get their building plans filed and approved before their impact fees dramatically increased.

## VACANCY

It is my opinion that an ideal, relatively balanced office market would have vacancy between 8 percent and 9 percent. The lower you go below 8 percent vacancy makes it more of an owners market due to more demand and less supply. The higher you go above 9 percent vacancy makes it more of a tenant's market due to more supply than demand.

Over the past year, the Southwest Florida office market went from 9 percent vacancy at the beginning of 2008 to 14 percent vacancy by the end of 2008. We are clearly in a tenant's market now. To achieve balance and stability in our office market, we need employment to pick up to help consume this excess supply of office space in Southwest Florida. But let's look more closely than this 14 percent average vacancy figure for Southwest Florida because it

# follows the job market

has little value if you use it to base a decision on a particular property. Other than Lehigh Acres, 14 percent vacancy does not accurately reflect any individual sub-markets across our region nor does it accurately reflect the three different classes of Office space (i.e. A, B and C).

Class A space is the nicest, most expensive space with good locations. But class A space represents only 13 percent of the total Southwest Florida office market. Most new construction is Class A space which in Southwest Florida currently has a 22 percent vacancy factor. Class B space is middle of the road space. It is basic space that is kept looking reasonably decent and rental rates are more affordable. Class B space in Southwest Florida represents 59 percent of the entire office market and it currently has 15 percent vacancy. Class C space is no frills, least expensive space with poor to average locations typically. Class C space represents 28 percent of the total Southwest Florida office market and it currently has a 7 percent vacancy factor.

You will notice the less expensive the space, the higher the occupancy right now. This is indicative of down economies where survival is more important to tenants than fancy brass and glass office space. So demand is higher for the less expensive space currently. This causes sleepless nights for Southwest Florida developers who constructed Class A space in the last two years.

Charlotte County only has 10 percent vacancy in Class A office space while Lee and Collier both hover around 22 percent for Class A. But Charlotte County has 21 percent vacancy for its Class B office space while Lee has 17 percent vacancy and Collier has 11 percent vacancy for its respective Class B space segments. Charlotte has an enviable 5 percent vacancy for its Class C space

while both Lee and Collier come in near 8.5 percent vacancy for its Class C office space. You can see that using an average 14 percent vacancy for all of Southwest Florida is not that reliable once you get specific on office property class and location.

Looking at combined (Class A, B and C) space per county, we find average vacancies of 10 percent for Charlotte, 13 percent for Collier and 16 percent for Lee County office space. It is easy to see that the more specific your study, the more accurate the results will be when analyzing for a particular building in a designated town on a specific street. For example, compare the Southwest Florida Class A vacancy average of 22 percent to Class A space vacancy in these market segments: south Fort Myers at 15 percent, Bonita Springs at 12 percent, Cape Coral at 60 percent, City of Fort Myers at 24 percent, Estero at 37 percent and Naples at 8 percent. Or compare Southwest Florida Class B vacancy average of 15 percent to: south Fort Myers at 19 percent, Bonita Springs at 19 percent, Cape Coral at 21 percent, city of Fort Myers at 9 percent, Estero at 24 percent and Naples at 13 percent vacancy. And finally, compare Southwest Florida Class C average vacancy of 7 percent to Class C space vacancy of 15 percent in South Fort Myers, 11 percent in Bonita Springs, 6 percent in Cape Coral, 5 percent in the city of Fort Myers, 7 percent in Estero and 4 percent in Naples.

You need to dig deep to get accurate numbers for a full understanding of office vacancies across a market area to better help in your specific planning.

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