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Landlords work to fill commercial spaces in Lee County

Vacancies spread as businesses close

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Too much empty space, too few tenants.

Realtor signs have become common sight at plazas, malls, offices and industrial buildings throughout Lee County over the past year, as businesses consolidate or close due to the slumping economy.

According to statistics compiled by Randal Mercer, a commercial real estate broker with CB Richard Ellis, Fort Myers-Naples:

- The vacancy rate for office space - buildings of at least 15,000 square feet - is 20 percent for the first half of 2008, up from almost 10 percent at the same time last year.
- Retail space vacancies also saw a jump, from 3.3 percent to 5.2 percent for buildings of at least 35,000 square feet.
- Vacancies at industrial buildings - those that are at least 20,000 square feet - also rose from 10.6 percent to 13.6 percent as of June.

The amount of empty space keeps inching up, and that trend will continue until the housing market improves, local experts said.

A plaza building boom that began in 2007, sparked by developers scrambling to avoid a deadline for the tripling of county impact fees, has only aggravated the office and retail space glut.

There is more than 450,000 square feet of store space being built now in Lee County, compared to more than 1.8 million at this time in 2007, and 713,000 square-feet in 2006, when the vacancy rate was 2.9 percent at year's end.

Will all these new office and retail plazas make it?

Time will tell, say local industry experts who pin the plazas' successes on reasonable rents, dealmaking, cooperative lenders and the owner's financial strength. Some foresee a scenario mirroring today's residential market, with banks foreclosing on plaza owners who fall too far behind on payments.

"I think we've still got a bitter pill to swallow," said Colin Kelly, an associate with Commercial Realty Group. "I don't want to be pessimistic, but I don't see the market bailing these people out. I think it's (the downturn) going to be too protracted. When it comes down to it, the banks are going to do what they have to do."

At minimum, vacancies can affect an owner's profits and lead to plazas becoming shabby and dragging down property values, said Andy Bauman, managing director for commercial real estate

specialist Sperry Van Ness in Fort Myers.

They're also a sign of larger economic issues people should be concerned about, according to real estate industry professionals.

"They should care because when there's a glut of space, there tends to be less development going on," said Todd Holman, a sales and leasing agent for Woodyard and Associates in Fort Myers. "When there's no building going on, there's no business for the contractors and subcontractors. That means your next-door neighbor isn't going to work tomorrow. There's just a trickle down where people aren't making money."

In response to the highly competitive environment, plaza owners are slashing rents and employing other strategies to retain tenants and attract new ones.

Lease rates in the county averaged \$19.40 per square-foot at the end of June, down from \$19.91 a year ago, according to Mercer.

Rates at most new plazas range from \$23 per square foot to \$28, according to John Mounce, principal of LandQwest Commercial in Fort Myers. Most struggling plaza owners have dropped lease rates by at least 20 percent, he added.

And businesses are using their new-found leverage to seek more favorable lease terms from landlords, oftentimes in an effort to remain solvent.

"We have had tenants that have come to us and said, 'Look we're struggling and can you cut our rent in half for six months.' We're willing to extend the length of our lease for six months or add it to the back end of the lease, or add another year to the lease," Mercer said. "In most cases we're happy to do that because from a landlord's perspective, some rent is better than no rent."

In May, Commercial Realty Group of Bonita Springs dropped lease rates by 20 to 30 percent for all eight Bernwood commercial properties it manages in the city.

Cape Coral landlords are luring tenants with one or two rent-free months and by offering to do more work to customize the space for each tenant, said Phil Deems, broker-owner of Phil Deems Real Estate, a commercial agency in that city. Some landlords have even approached tenants, mid-lease, offering reduced rent, he added.

Some landlords, such as Rick Johnson, are being more aggressive, offering rates as low as \$10 to \$12 per square-foot, depending on the length of the lease and the tenant's potential as a business attractor.

One of his plazas, the Shoreline Shoppes, on Bayshore Road in North Fort Myers, opened in May, while a second, the Broadway Shoppes on Broadway in Estero, is set to open next month. Both are anchored by Rick Johnson's Auto and Tire stores, which he also owns.

He's offering new tenants as much as 90 days of free rent and reduced common area maintenance fees to sign on the dotted line.

Plaza owners are knocking on the door of the three partners who hold the Lee and Charlotte county franchise for Five Guys Burgers and Fries.

The chain opened its first two stores, both in Cape Coral, within the past year and two Fort Myers locations should be opening within six months.

"We're starting to get more calls for us to come in and we're expecting to see rent numbers come

down because there's so much available space," said one of the partners, Dan Beaulieu.

Rental activity is strong for savvy plaza owners with market-friendly rates, but the opposite holds true for those who haven't lowered prices, said Michael Bukowski, owner of Remax Edge, which has offices in Lehigh Acres and south Fort Myers.

He cited the Westgate Shops on Lee Boulevard in Lehigh as an example.

Only one of the 14,000-square-foot center's storefronts was empty last week, but there were three vacancies when the owner, Fort Myers-based Idelson Ventures, decided, in March, to lower rents.

"With the dollar weak and gas high, you have to make adjustments," he said. "If you're not willing to make adjustments as a building owner, how do you expect a tenant to stay in there."
