

Space Available

The sluggish industrial market may be the last to rebound.



Buyer's market: High vacancy rates and low demand have landlords offering great deals on commercial space.

>>Tenants closing or downsizing and the debut of new industrial space in the past year have continued the buyer's market for companies seeking warehouse and flex spaces.

Businesses that are surviving and moving into the market are commanding aggressive rent deals, says Randal L. Mercer, a partner at CB Richard Ellis, Fort Myers-Naples. "Some businesses are actually growing, and they're moving to a little bit larger space but at a cheaper rent," he says.

Average lease rates in Lee County are \$5.70 per square foot, net, according to his firm's data. Flex-only average rents are \$7.43 per square foot, net, while the average industrial rent is \$5.28 per square foot, net.

"Many spaces are being offered under \$4 per square foot, net, and tenants are becoming more active in this price range," says Jim Garinger, Colliers Arnold principal and managing director in Fort Myers. "The Lee County industrial market is deep into the recessionary cycle, and we

believe it has the longest distance to travel to recovery."

Even rents reported as low as \$5 to \$7 per square foot may be misleading, because of hidden concessions ranging from free rent to additional tenant improvements, Mercer says.

Rates in Collier County are down 30 to 50 percent compared with two years ago, says Christine Gonnering Martin, an industrial realtor with Investment Properties Corp. of Naples.

Average asking lease rates in the first quarter 2009 were \$7.63 per square foot, compared with \$8.20 at year-end 2008, according to CB Richard Ellis' analysis of buildings 20,000 square feet or greater (excluding owner-occupied properties). For flex space only, it's \$10.22 per square foot. The average asking rent for other industrial space is \$7.19 per square foot.

"There are quite a few vacancies, and people are taking a lot of time to decide. They're really looking at the ideal location," Gonnering Martin says. "There are a lot of larger spaces out there. Somebody

who could maybe fit in 3,000 square feet but only afford so much can get into 6,000 square feet for the same price."

Landlords are forced to accommodate those kinds of demands as they face higher vacancy rates and a limited pool of potential tenants.

First-quarter data from CB Richard Ellis showed the combined Lee County vacancy rate is 21 percent (38 percent for flex space, 19 percent for industrial space). Mercer reports a sharp increase in Collier County's industrial vacancy rate, from 6.4 percent in fourth quarter 2008 to 9 percent in first quarter 2009.

Much of the available larger space is in Naples Production Park, south of Golden Gate Parkway between Airport-Pulling and Livingston roads. Mercer says any significant absorption in that industrial hub will help stabilize the south Naples submarket, which has a vacancy rate of 12.3 percent.

Even though vacancy in Collier is rising, it is not as high as in Lee County, where there was a rapid oversupply of inventory

as demand waned, Mercer says.

Another key factor: Net absorption in Lee County was negative 217,413 square feet in first quarter 2009, compared with a positive 28,897 square feet in fourth quarter 2008, according to CB Richard Ellis' data. Collier County posted a net absorption of negative 72,961 square feet, when more space became available than was filled, compared with negative 18,492 square feet in fourth quarter 2008.

Lee County's negative absorption is the highest loss of occupied space in one quarter during the downturn, says Andrew Falde, investment specialist with Colliers Arnold in Fort Myers.

Also a factor is the debut of new space in Lee County, which has 22 million square feet in industrial space. Mercer estimates that roughly 2 million square feet, representing a 20 percent increase, has recently come on line, particularly in and around the Alico Road/Interstate 75 corridor and Treeline Road Corridor.

Who Is Leaving

The two biggest industrial users that have been hard hit are construction and

retail businesses, followed by suppliers and distributors who don't need to store as much product, Falde says.

Retailers are keeping their inventory levels lower than Mercer has ever seen, evidenced nationwide by the decline in the gross domestic product.

The depressed vacancy rates and absorption figures also are the result of the region's tourism- and construction-focused economy, Mercer says.

"There are not as many tourists and not as much construction right now, and that is affecting the industrial product here," he says. "Until we see the residential construction market pick up speed again and until we see consumer confidence outside of this market ... [we're] not going to see a huge increase in the industrial base at all."

Who Is Leasing

Few tenants are coming into the market. The deals this year are centered on existing tenants and new entrepreneurs, with Mercer seeing everything from landscape maintenance companies to plumbers and electricians.

IPC has seen the same trend in Collier, particularly with the children of baby boomers moving to the area because of the lower housing prices, Gonnering Martin says. New businesses have ranged from technology companies to printing, graphics and sign businesses.

The firm also has signed three leases this year with wholesale apparel companies, she says. Another trend they've seen is millwork companies, due to an increase in kitchen and closet remodeling, as well as a push for space among charitable organizations needing office and retail space.

Gonnering Martin says landlords are agreeing to free rent or lower base rents, but are asking for lease terms for one to three years, compared with five- or 10-year leases.

"The landlords want to keep it that way in case the market does turn around, then they'll be able to raise rents up," Mercer says. "The low rents are solving everybody's need today, but a couple of years from now, it may change." **gb**

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