Commercial real estate: looking back, looking ahead

BY GARY TASMAN
Guest Columnist

Southwest Florida meets the end of 2014 with a year of steady and gradual improvement and some notable achievements in particular top-performing commercial real estate sectors – fueled in part from economic gains.

Residential permit activity (which drives commercial space demand) also showed gains across all counties in a year-over-year comparison with a nominal increase of 1 percent in Lee County (August year over year). Collier County reported an impressive 29 percent gain in permits (August year over year).

Office sector

Southwest Florida's office sector is still absorbing inventory and still dealing with a good deal of functional and structural obsolescence, particularly as it relates to the design requirements and parking needs of many would-be mid- to large-scale officer users.

Looking ahead. Mid-sized medical users will continue their re-entry into the market at a more rapid pace, absorbing available space and some select build-to-suit projects. Expect continued creative mitigation trends including large retail centers slated for "change of use" to accommodate high density medical and general office users such as call centers and fulfillment centers. Many of these centers are ideal considering their parking allotments and locations in proximity to urban cores (close to public transport and also accessible from a number of suburban housing areas where employees are likely to live)

.

Industrial sector

Velocity in the industrial sector is lower than seen in previous quarter, yet the decline is without a doubt due to a lack of inventory, not demand. This extremely low inventory creates upward pressure on rental rates for across all classes of industrial assets with space available to lease.

Looking ahead. Although a notable gap in supply exists, getting new construction projects off the ground has been challenging as construction costs continued to escalate at or above the rate of rent – making the rates needed for a financially feasible project out of line with market rents and ultimately delaying new projects from commencing. Recent indications suggest that quoted construction rates are lower than have been quoted earlier in the year – either from an actual material decrease or a smaller cushion of uncertainly applied by builders as their certainty in construction costs grew. If this trend continues, it may pave way for a big box spec industrial project delivering in 2015.

Retail sector

Vacancy rates have stabilized and declined over the past consecutive quarters. As inventory in key submarkets and high traffic intersections was absorbed, rental rates began upward momentum.

Looking ahead. As anchored centers become fully stabilized, significant activity trickles down to those "shadow anchored" centers in prime locations. On the heels of shadow center activity is an infill retail model which has seen significant success this year. Two- or three-tenant co-branded "billboard centers" housing national tenants (often cellular companies, mattress warehouses, and other demographically-aligned co-brands) have entered the market in full swing with skyrocketing rents backed by the strength of national tenants. An alternative opportunity is still pressing forward – that of freestanding retail structures – still mostly restaurants, but includes select instances of activity from national dental chains and cellular companies.

Multi-family sector

Across the board, rents increased rapidly due to low inventory. Most existing projects are at or near occupancy and waiting lists are now the norm for prime complexes. Rent concessions are a thing of the past.

Looking ahead. An interesting dynamic shift in multi-family may reveal itself in 2015. There are currently approximately 1,500 rental units under construction with near-term delivery dates (and no new ones planned). These under-construction projects benefitted from the reduction in impact fees and will deliver at an opportune time when occupancy of existing projects is extremely high. As these new units are absorbed by pent-up demand and those renters upgrading from older existing communities to take advantage of a newer product at similar rental rates, older communities will be forced to weather rent pressure from increased vacancies – thus price-correcting and increasing landlord concessions.

The key 'takeaway'

As we head into 2015, prospective tenants should expect to pay more going forward as builders and developers increase plans, mobilize and bring forth new and better product to the market while remaining existing assets continues absorption and/or fail to meet the needs of prospective tenants.

— Gary Tasman is founder and executive director of Cushman & Wakefield Commercial Property Southwest Florida LLC in Fort Myers and Naples. Contact him at (239) 489-3600 or email gtasman@cpswfl.com, or visit cpswfl.com.