

Woolbright Development Research

South Florida 2009 Year-End Retail Market Summary and Outlook

For over 15 years, Woolbright's research team has conducted annual surveys involving physical visits to every single shopping center in South Florida. Instead of listening to the pundits, Woolbright forms its plans based on current and historical market data which we freely share with others. For many, 2009 will be remembered as the worst year in over a decade and a half for South Florida's commercial real estate. Nevertheless, Woolbright's data shows that the market conditions, while dismal in 2009, were far better than those we experienced after the S&L crisis during the early 1990s.

The table below provides an overview of the current conditions for open air shopping centers over 50,000 square feet (*the areas represent millions of square feet*).

County	Projects	GLA	Vacant	%	New GLA	Absorbed
Palm Beach	266	35.4	4.5	12.8%	1.1	+0.2
Broward	333	44.4	5.6	12.6%	0.6	-0.6
Dade	324	40.4	3.1	7.6%	0.9	+0.5
Total	923	120.2	13.2	11.0%	2.6	+0.1

At the end of 2009, South Florida had over 13.2 million square feet of vacant space in its open-air shopping centers which equates to an 11.0% vacancy rate. While this 11.0% vacancy rate is a peak for the last decade, it is far from the 20% rate experienced in the early 1990's. Yet, like after the S&L crisis, we expect the full recovery from the current crisis to take at least five years.

Last year was an historical outlier for retail absorption in South Florida. Under the pressure of a massive recession, South Florida was unable to achieve any increase in occupied retail space. Surprisingly, even with the closing of Circuit City and the Linens 'n Things chains, South Florida finished 2009 with the same amount of empty big-box space it began the year with. Yet sadly, in 2009 South Florida added approximately 2.6 million square feet of new space which squeezed out small businesses operating in existing shopping centers. The net result of the new space being added was to push up the supply of vacant space by the same amount, 2.6 million square feet. Who said "that building new space wasn't evil?"

County	2008 Vacant	2009 Vacant	Change	2009 New	2010 New
Palm Beach	3.6	4.5	+0.9	1.1	0.4
Broward	4.5	5.6	+1.1	0.6	0.6
Dade	2.6	3.1	+0.5	0.9	0.5
Total	10.7	13.2	+2.5	2.6	1.5

We project that vacancies will fall during 2010 as the economic recovery takes hold. Why? In markets, it's well known that everything ultimately reverts to the mean. Also, we can be guided by the pace of recovery from the S&L crisis and others that preceded it. Over the last decade, South Florida added retail space at an average annual rate of 3.5% which was slightly above the population growth rate. Every year during the last 15 years, the South Florida retail market absorbed 3.0 to 4.0 million square feet annually.

We expect that retail absorption during 2010 through 2013 will, on average, be at the low end of the historical spectrum, averaging only about 3.0 million feet per year. On the other hand, during the next four years, new construction will be held back from its historical levels by tight credit and constrained anchor tenant expansion demand, resulting in a growth rate of new supply of 1.0-1.5% annually. The dramatic slowdown is already evident in the large drop of projects now under construction that are expected to open during 2010. Over the next four years, with the economic recovery creating new business expansion combined with only a very limited amount of new retail supply, we expect that South Florida’s existing centers will absorb approximately 1.0 to 1.5 million square feet annually. This will cause the vacancy rate to drop from the current 11.0% level to under 8.5—9.0% by 2013 (see table below).

Like during the recovery after the S&L crisis in the 1990s, it will take a significant reduction in the supply of vacant space before the sentiments change and the animal spirits re-emerge to force rents up again. In 2009, as vacancies jumped, owners responded by slashing rents by an average of about 15%. Under the current large vacant supply overhang, we project that owners will continue to lower rents to attract new tenants. The tipping point will not occur until the vacancy rate falls below the psychological barrier of 9.0%.

To get vacancy rates back below 9.0% the market must absorb about 2.2 million square feet. In other words, before rents will go up again, the supply of vacant area must fall from the current 13.2 million square feet to below 11.0 million square feet which was the level of empty space South Florida had at the end of 2008. The process of cutting the supply of vacant space will take some time. As a result, rents will not reach a bottom until 2011, almost two years after the rents peaked. In addition, even though we project rents to begin rising in 2012, it will be many years before they exceed the levels charged in 2008. Our expected five year rental recovery cycle would match the pattern we saw in the early 1990s.

Our projections of rents at year end for a typical Publix anchored center in each county and vacancy levels for South Florida market are shown in the table below.

	2008	2009	2010	2011	2012	2013
Vacant Area	10.7M	13.2M	12.2M	11.2M	10.5M	10.5M
Vacancy Rate	9.1%	11.0%	10.0%	9.0%	8.5%	8.5%
Rents:						
Palm Beach	\$27.00	\$23.40	\$21.00	\$20.00	\$22.00	\$24.00
Broward	\$27.50	\$24.00	\$21.50	\$20.50	\$22.50	\$25.00
Dade	\$31.60	\$27.30	\$26.00	\$25.00	\$27.00	\$29.00

On balance, Woolbright's data shows that South Florida’s retail market has not and will not collapse into an abyss. Instead, the market will experience a typical business cycle recovery from a “once in every two decade credit crisis”. South Florida has have made it through dozens of recessions in the past. Many of us survived the last post S&L crisis carnage and the long five-year recovery period that followed. As is often the case, we are about to experience history repeating itself. Fortunately, we are now about to leave this bust and slowly move towards another boom.

Woolbright Development

Woolbright Development Inc., a real estate investment firm based in Boca Raton, Florida, acquires and develops retail grocery and basic needs shopping centers throughout the state of Florida. Founded 22 years ago, Woolbright is now one of Florida's largest investors in Florida shopping centers and is partnered with some of the US's largest real estate investors. The keys to our success are extensive area research, industry knowledge, client commitment, and vision. Woolbright currently maintains a retail portfolio of 3.5 million square feet all of which is located in Florida's major metro markets. Information about the firm, recent research studies and a complete listing of our portfolio can be found on our website www.woolbright.net.

