



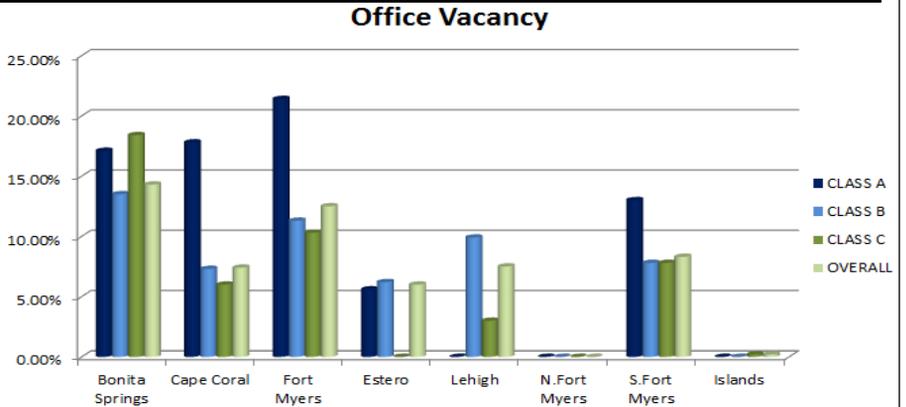
Lee County Office Space

There is no doubt the Southwest Florida commercial market has improved over the past few years. New retail is being constructed at almost every major intersection and we have experienced a rise in rental rates and very low vacancy rates. Similarly, warehouse facilities are under construction or in the planning stage and vacancy is sub 5%. With two of the three major market sectors expanding, certainly we are experiencing similar results in the office market in Lee County, right? Unfortunately, this is not the case in Lee County or throughout the country for that matter.

Let's first take a look at the office indicators. The Lee County Office market, which consists of nearly 20 million square feet of space, had a vacancy of 9.6% in 2Q 2016. The majority of this vacant space is in the Class B market with 1,146,295 square feet of vacant space followed by 386,265 square feet in Class C and 353,960 square feet in Class A. This is a tremendous amount of dark space but looking back over the past five years, there was a point in 2012 in which Lee County had over 3 million square feet of vacant office space (16.7%). Interestingly, at this point in 2012, our average base quoted rental rate was \$15.27 per square foot. There was a strong resistance to these high rental rates and the market reacted with the most recent quoted office rentals being \$13.97 per square foot.

So why the resistance or struggle in the office sector when multifamily, industrial and retail are thriving?

We are seeing a cultural shift in the office market. Employers are searching for ways to engage their employees and in turn improve the bottom line. Employees want a flexible work environment and not just a one



size fits all type office with a cubicle, breakroom and a copy machine. A collaborative work environment while addressing concerns of privacy is the new office protocol. Obviously, different industries will need varying degrees of shared work space, but the trend is happening. Technology is leading to more nomadic workers who typically work remotely or work on their own with no true office space. As a result, we are seeing office needs shrink. (In the 1970's, it was common for an office space per square foot of about 500-600 square feet per employee.) According to Steelcase, this ratio is 150 to 200 square feet per employee. Locally, on the extreme low side, we are aware of a 20+ employee firm utilizing a 1,800 square foot space or 90 square feet per employee. Some will say the pendulum has swung too far with collaborative work spaces and we can't function without privacy. There is some truth to the privacy issues, but the office space of tomorrow will include private options but a more open atmosphere to inspire a more creative environment and a more engaged employee. According to

Forbes, three out of four employees will be Millennials by 2025. This generation will continue to influence the office of tomorrow.

What does this mean for Southwest Florida? We have a lot of obsolete space that may fit the Baby Boomer generation but will need retrofitting to thrive beyond 2016. Natural lighting, colors, textures and a community design will pay dividends for the employer. A small business of say 20 employees will no longer need 5,000-6,000 square feet but rather 3,000-4,000 square feet will be adequate. Our near 10% vacancy in Lee County will remain high relative to retail and industrial. The question will be whether the existing space, with an obsolete design, will be redesigned or will it remain vacant and be replaced by efficient space to meet future demands of the roaming employee. Our municipal community development departments are pushing for more mixed use development nodes to promote the live/work/play environment. Efficient office space in these areas will thrive as suburban offices will continue to falter. Employers will continue to follow rental rates per square foot but as needs for square footage decline, this metric will no longer be the driving force. Employers will squeeze into a smaller space and pay more per square foot as long as they have a more engaged employee. Older, inefficient space will continue to see falling demand and rent per square foot.



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