

TAMPA BAY

St. Pete CBD office market shines in spite of downturn

By Adam M. Lutz

Lutz Real Estate Investments

Review a selection of commercial real estate market reports, and you will observe that St. Petersburg downtown office market statistics are typically rolled into greater Tampa Bay.

Yet, if you haven't visited St. Petersburg recently, you might in for a surprise. Long a vacationer and retiree hotspot, St. Petersburg has become a magnet for business as well.

With its integrated combination of housing, retail, office, healthcare and educational facilities, coupled with one of the most sought-after beaches in the world, St. Petersburg's CBD has become one of Florida's most dynamic environments in which to live, work and play.

In fact, St. Petersburg has become very successful in luring corporations to relocate or to establish regional operations here.

As the fourth-largest city in Florida and part of the nation's 12th-largest market (according to Nielsen Media Research), the city has attracted more than its fair share of corporate employers and entrepreneurs and is home to more millionaires per capita than any other city in Florida.

One-third of all Fortune 500 companies have operations in greater St. Petersburg. Companies such as Progress Energy, Talbots, MetLife, URS Corporation, the St. Petersburg Times, Raymond James Financial, Franklin Templeton Group, the Home Shopping Network, Danka Industries, Raytheon, Ceridian and Jabil Circuit are expanding or relocating in the city, serving as both a

GUEST COLUMN



Adam Lutz

catalyst for and a result of the ongoing economic and population boom.

SRI

International is the latest addition to St.

Petersburg's thriving Marine Sciences District, a major employment driver and home to major state and federal research institutions. Growth also has been driven by the expansion of several area hospitals, including the \$330 million expansion of All Children's Hospital and the \$30 million renovation of St.

Anthony's Hospital. Educational institutions - including University of South Florida, Stetson College of Law, Eckerd College and others - draw 110,000 students annually to downtown St. Petersburg.

Despite current economic conditions, downtown St. Petersburg has retained its fundamentally positive characteristics. Downtown office vacancy has risen from 7.7% at year-end 2006 to 11.9% at year-end 2007, according to Colliers Arnold data. While a high vacancy rate, approaching 26% in the Class A category, would be considered bad news in some cities, it is beneficial for St. Petersburg in light of the tight downtown office market of recent years.

Despite the rise in vacancy, average office lease rates remain at \$25.51 psf, higher than those of downtown Tampa. While this may seem surprising from afar, the differential reflects what market insiders know: If you want a

lively work environment with exciting housing, restaurants and other urban amenities, downtown St. Petersburg has far more to offer than Tampa or Clearwater.

One important change affecting downtown vacancy classifications was the re-designation of the newly available 135,000sf 100 Bay Central office facility to Class A status, resulting from its renovation following the departure of Progress Energy to a new headquarters building nearby.

In fact, 100 Bay Central currently is one of the largest vacant spaces downtown. Another large downtown vacancy is at First Central Tower, where Bankers Insurance Group in 2007 vacated 85,000sf across multiple 14,000sf floors.

According to Mayor Rick Baker's office, more than \$1.3 billion in commercial development is under construction downtown. More than 700,000sf of new office space is under construction, much of it consisting of small spaces within mixed-use projects. Recent and ongoing downtown office projects include Progress Energy's new 200,000sf office facility; a 27-story, 209,000sf office building being developed by Triann Tower LLC for delivery in late 2008; and the 38,000sf of office condominiums at Signature Place, planned for occupancy in first quarter 2008.

While unemployment has risen to 4.7%, on par with the statewide rate of 4.2%, it continues to be lower than the national rate of 5%, according to December 2007 data from Florida's Agency for Workforce Innovation. However, the general

slowdown of greater Tampa Bay's economy in 2007 will likely have little effect on the long-term potential of downtown St. Petersburg.

Under the direction of the Mayor Rick Baker's administration and various civic advocates, downtown St. Petersburg has become a true 24/7 live-work-play contemporary community. In fact, Southern Business and Development magazine has named the city as a "Top 10 Community for the Creative Class" and as the city with the "Most Livable Downtown in the Southeast." America's Promise, an organization founded by Colin Powell, has listed it among "America's Best Communities for Young People" for two years running.

The waterfront has been instrumental in downtown St. Petersburg's transformation. In the late 1990s, an ambitious public-private partnership created the \$40 million BayWalk, a 300,000sf retail and entertainment center that attracts more than three million visitors annually. BayWalk was an important first step toward changing perceptions of St. Petersburg.

The downtown office market has benefited not only from the BayWalk development, but also from the residential building boom of the past five years. Nearly 2,000 luxury condominiums are in the planning and construction phases, including the Robert Johnson-designed Signature Place - soon to be the city's tallest building and the only one to offer one condominium unit per floor on its top three floors. Located next to 100 Bay Central, Signature is 70% presold. Other downtown residential options include urban-

style lofts, townhomes and mixed-use residential/retail/office developments.

The downtown workforce numbers more than 28,000 people, and some are among the 18,000 people who live downtown. An influx of population has brought the average age of residents down from about 48 years old in 1970 to 39 in 2007, reflecting the city's transformation from a vacation and retirement center to a thriving area of urban young professionals. The city also boasts the greatest number of households in the region with a net worth over \$1 million - the highest per capita personal income of the four largest cities in Florida and an average household income that is greater than Orlando or Miami. It's a reflection of St. Petersburg's burgeoning population of highly trained technical and business professionals.

As part of the greater Tampa Bay region, St. Petersburg and its downtown charms are not always apparent in statistical market reports. However, a look behind the numbers reveals the St. Petersburg surprise: a vibrant downtown office environment that will likely suffer only temporarily from the current downturn.

With its synergistic components of downtown workforce housing, retail amenities and office facilities, St. Petersburg's downtown office market has all the right elements to sustain itself.

Adam M. Lutz is principal of Lutz Real Estate Investments and iCap Realty Advisors in Michigan and Florida.