

A SPECIAL REPORT FROM NAI GLOBAL

BP Spill Not Likely to Impact Commercial R.E. Markets, Say NAI Property Experts In Gulf Coast States

The huge spillage resulting from the April 20 explosion on a BP oil rig in the Gulf of Mexico still has not been stanchered, and some observers fear the accident will have a severe effect on tourism and fishing industries in the region. But NAI commercial real estate professionals in Alabama, Florida, Louisiana and Texas believe the accident will not have a material long-term impact on commercial real estate markets in the Gulf Coast states.

Eight weeks after the accident occurred, sales and rentals of vacation homes have slowed, and resorts along the coast are anticipating heavy cancellations. The fishing and shipping industries have been severely impacted, although many workers from those industries are now employed in cleanup operations. A U.S. Coast Guard spokesman warned this week that the cleanup could take years.

The prevailing opinion is that the overall effect of the spill on real estate along the Gulf Coast will be small, and might even be positive in some markets. The accident and its aftermath are not likely to have a significant effect on supply or demand, and thus should not impact rental rates or property values over the longer term. However, an oil spill of this scale in this part of the world is unprecedented--so any speculation is just that.

"Right now, people are taking space because they're down here trying to work on the situation," reported Karl Landreneau, CCIM, director of sales and leasing at NAI Latter & Blum, a commercial brokerage firm with offices in New Orleans, Baton Rouge and Lafayette, LA. "All efforts are directed at plugging the well and keeping the coast as clear as possible. It's too soon to tell what the economic impact will be, long-term."

The petroleum industry represents a mixed blessing for commercial real estate along the Gulf Coast. Office markets in the Gulf Coast states took less of a pounding from the recession than other parts of the country during the past year-and-a-half primarily because petrochemicals account for so much of its economy.

Most office markets in the Gulf states boast vacancy rates well below the national average of 12.8% at the end of Q1 2010, with the exception of Houston (14.4%), Baton Rouge (15.6%) and Southwest Florida (16.1%).



In Baton Rouge, for example, office rents have been holding steady, and occupancy is still above 90% in most commercial neighborhoods. Median home sale price is up about 10% year-on-year for 2010, compared to the first five months of 2009. Landreneau remarked that the petrochemical industry and the state government have kept his territory from suffering.

"Underwriting has become more stringent," he conceded, "but local and regional banks are working with us. There have been no 100% loans, but people are putting money up, and we have seen very few foreclosures."

Lee Y. Wheeler III, CCIM, president of NAI Fidelis in Beaumont, TX, likewise reported that commercial real estate in his part of Texas did well during the recession, largely due to an announced \$15 million worth of industrial expansion in the pipeline going in.

"The economy slowed and many of the new projects were put on hold or



Karl Landreneau
NAI Business Director
NAI Latter & Blum
New Orleans, LA



Lee Wheeler
President
NAI Fidelis
Beaumont, TX

cancelled altogether, even affecting many deals that were already under contract," he said. "We see many buyers on the fence right now. They have the wherewithal to complete transactions but just do not want to pull the trigger on deals. As such, it has slowed the volume of transactions. The one constant has been Motiva's \$7.9 billion project. They're ramping up now to about 6,500 workers."

"The bigger banks are still very tight with loans, but credit unions and local banks are aggressively lending, and competing," he added. "Money can be had cheap right now, and our market is fundamentally sound in most sectors."

"Commercial vacancy rates in our part of Florida have held steady—or decreased in some sectors—over the past several months," reported Kevin Fitzgerald, CSE, president and principal of NAI Southwest Florida in Fort Myers. "We're also seeing more interest from people outside Florida and even outside the United States."

"The greatest real estate impact will be in residential," predicted John Griffing, SIOR, President of NAI Halford in Pensacola, FL, who noted current activity is similar to what the market experiences after a hurricane. "We're seeing an up-tick now because people are coming in to work on the spill, and they need staging areas. Of course that's short-term. Workers come in, repair the damage, and leave."

According to Griffing, BP has a large presence in Escambia County and is using a 25-acre site on an industrial bayou for a staging area, and to clean the booms and the vessels being used in the cleanup.



John Griffing
President
NAI Halford
Pensacola, FL

"The spill has had a major impact on sport and commercial fishing, and on our seafood industry, and has impacted tourism all along the coast," Griffing added. "The marshes and wetlands will be harder to clean than the beaches, and those are the nurseries for the seafood that we send all over the world. The wetlands might sustain damage severe enough to impact people's livelihoods."

In and around Mobile, AL., the commercial fishing industry basically has been shut down for the duration, according to Bernie Heggeman, SIOR, President of NAI Heggeman.

"In terms of real estate, this spill will affect the resort markets most directly," he said. "The rental market for vacation homes and condos has taken heavy cancellations. Meetings, vacations, and fishing tournaments have been cancelled for the summer. Louisiana's marsh area is priceless: That's where the larval seafood starts out, and some marine biologists are saying that

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—Bernie Heggeman, President, NAI Heggeman
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the ecosystem could be affected for years. We just don't know how extensive the damage will be."

The overall business climate in Alabama continues to be soft with the exception of the Huntsville area, Heggeman added, but the outlook could change drastically to the positive if two particular projects take place. First, in the event EADS wins the \$40 billion U.S. Air Force aircraft contract to build refueling tankers, the facility will be built in Mobile. Second, Austal Shipyards (also located in Mobile) is bidding for a major U.S. Navy contract.

"They would build the vessels here in Mobile with major new employment and capital spending," he said. "Both of these projects are slated for award within the next 12 months. These projects would have a major impact on the entire market from the Florida panhandle to New Orleans."

"The big unknown is what happens if a big hurricane hits us during the storm season?" Heggeman concluded. "Sure, there will be a short-term stimulus effect from the cleanup, and BP has hired some local fishermen to assist. BP also bought a couple of office buildings since they plan to be here awhile. But the overall collateral damage, especially to the seafood markets, will negate any temporary upturn."

Fitzgerald agreed that the severity of the upcoming hurricane season might prove decisive in terms of assessing long-term damage. Because summer-like temperatures seem to be earlier and warmer than usual, he noted, hurricanes might be more attracted to Gulf waters later in the season.

"Our waters are clear here, so far, but if the spill isn't stopped soon, it will hit our shores," he said. "The physical damage won't be great, but I'm more worried about the perception than about the reality."

"We've already suffered a downturn because of local governments that have become less welcoming to development, but I believe we've hit bottom and are coming back up," Fitzgerald continued. "That downturn put fear into a lot of people. They will be more cautious, and people like me will be more blunt and realistic when we counsel."

Wheeler notes that the current moratorium on new drilling permits has led to considerable layoffs, which in turn have hurt real estate values.

"We have a property for lease with highway frontage and a ship channel and it's hard to lease because people who would utilize that are mostly drillers," Wheeler stated. "The moratorium may be extended so that nothing opens up until the first of next year."

"Overall, though, real estate values have been pretty stable," Wheeler added. "Our big issue is that many of our bigger lenders are still gun-shy. A lot of businesses want to expand but can't get the money."

"It's the uncertainty that's affecting the energy companies more than the spill," agreed Jon Silberman, Co-Managing Partner at NAI Houston in Houston, TX. "A drilling contractor might want to buy land and build a building, but now he may want to wait six months. If jobs are lost, there'll be impact on residential, but we haven't seen that yet."



Bernie Heggeman
President
NAI Heggeman
Mobile, AL



Jon Silberman
Co-Managing Partner
NAI Houston
Houston, TX

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"If BP can stop the spill, the drilling will continue, because people will calm down and face the fact that we have to drill," Silberman added.

NAI Global Chief Economist Dr. Peter Linneman suggested that while the media and various political activists have cast the spill as a major crisis, its long-term effects on the Gulf Coast's economy in general and real estate in particular will probably be minimal.

"This spill is the most over-hyped problem we've seen in the past six months," he asserted. "If you're a Republican, you can blame President Obama for it the way Democrats blamed President Bush for Hurricane Katrina. If you're a Democrat, you can say, 'Oh, that awful private sector; look what they did; this is why the government should intervene.' If you're an environmentalist, you can say, 'The private and public sectors both failed, so give us more money to ensure that this won't happen again.' And if you're Goldman Sachs, the oil spill has taken the spotlight off you."

"Now, how much will the spill cost? We won't know the true cost for 20 to 30 years, if ever," Linneman noted. "The various people who claim to estimate the costs will wink at each other and agree not to expose one another's made-up numbers. In truth, the cost and suffering caused by this BP disaster is minuscule compared to the loss of life from malaria in Africa in a given week, or the starvation in the Sudan."

That said, Dr. Linneman insists that the cost to local economies will vary, industry to industry, and that the damage to real estate markets will probably be small, and temporary.

"Tourism to Pensacola may be down," he conceded, "and commercial fishing may be hurt, but consequently business will increase at other vacation destinations, and fishing areas. If we were an island, with a subsistence society, the situation would be much more serious. But we're not. The overall economic impact to the nation will be trivial."



Dr. Peter Linneman
Linneman Associates
Philadelphia, PA

Gulf Coast Office Markets (Class A, B &C)

Market	Inventory	Vacancy	Avg. Rental Rate
Baton Rouge, LA	157,765,837	15.6%	\$16.18
New Orleans, LA	42,027,789	9.1%	\$15.41
Beaumont, TX	6,639,660	5.2%	\$15.43
Houston	259,984,615	14.4%	\$23.12
Corpus Christi, TX	9,509,654	8.9%	\$14.81
Mobile, AL	14,056,724	8.9%	\$14.06
Southwest Florida	30,088,622	16.1%	\$17.10
Pensacola, FL	11,493,610	9.5%	\$13.79

Source: CoStar Group

Gulf Coast Industrial/Warehouse Markets

Market	Inventory	Vacancy	Avg. Rental Rate
Baton Rouge, LA	12,688,332	19.5%	\$4.84
New Orleans, LA	49,456,106	10.1%	\$4.62
Beaumont, TX	6,763,208	5.0%	\$4.12
Houston	450,529,958	6.3%	\$4.92
Corpus Christi, TX	17,456,987	6.5%	\$5.43
Mobile, AL	16,086,425	13.6%	\$4.23
Southwest Florida	40,054,802	13.5%	\$5.77
Pensacola, FL	15,424,183	12.4%	\$4.74

Source: CoStar Group

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