

Southern states see growth in non-residential market despite economic stalls and overbuilding

by Janice Rosenberg

Overbuilding and a general economic slowdown are affecting residential property development in five contiguous states: Alabama, Arkansas, Kentucky, Mississippi and Alabama. Fewer new properties are being constructed and those already online are taking longer to lease.

“According to a local economist, it will take about nine years for what was built in our housing market to be absorbed,” said Beverly Roachell, CPM®, president, RPM Management Co. Inc., AMO®, in Little Rock, Ark. “So there’s not much new development here. The cranes have stopped.”

Despite generous inventory with low absorption, there are still positives within certain sectors of the five-state area. Several IREM Members provide their take on how to work through these challenging economic times.

EXCESS INVENTORY

Until five years ago, locally owned properties in Tuscaloosa, Ala., provided enough units to serve

year-round residents and the annual fall influx of University of Alabama students. Then university President Robert E. Witt, declared that the student population would grow from 19,000 to 28,000 by 2013, drawing attention from out-of-state condominium developers, said Warner Johnson, CPM, director of property management at Duckworth-Morris Real Estate in Tuscaloosa.

Overbuilding resulted, and last fall Tuscaloosa saw vacancy rates reach as high as 10 to 15 percent, the highest rates in 15 years. In Fayetteville, Ark., home of the University of Arkansas, property managers have seen occupancy rates drop from 98 percent in 2007 to just 85 percent this year, also due to overbuilding, Roachell said.

In Mississippi, residential markets are down due to excess inventory, the inability of people to sell existing homes and tightening credit, said Keith S. Collins, CPM, of Keith S. Collins Co., in Germantown, Tenn., just north of the Mississippi bor-

der. Local developers and builders are taking a very defensive posture and have slowed down, waiting for excess inventory to be absorbed.

Until recently the downtown market in Memphis, Tenn., had been very successful, spurred by second-home buyers, Collins said. Now sales of the mid-rise condos his company manages, which originally sold “like gang-busters,” have slowed to a snail’s pace.

“Construction permits are off. Listings are up and closings are down, which shows the market is suffering,” he said.

As a result, Collins’ new business growth rate has slowed dramatically this year, in contrast with the company’s first seven years when its inventory grew from 1,800 units to 14,000 units in 120 condominium associations in Tennessee and Mississippi.

ACCENTUATE THE POSITIVE

The majority of bright spots are in non-residential markets in all five states. Richard Wright, CPM, director of property management at H.G. Hill Realty Co., sees opportunities in developing high-end infill malls. His company’s 200,000-square-foot office/retail lifestyle center, Hill Center at Green Hills, offers amenities, like ponds that harvest rainwater to irrigate gardens and special HVAC systems.

“No one is building new major mega-center enclosed malls around here,” Wright said. “The current vogue is toward open-air malls with



The 194-unit Harbin Pointe Apartments complex in Bentonville, Ark. was completed in November 2006. Arkansas is an area hard hit by overbuilding and high vacancy rates.

Photo: RPM Management Company, Inc.

parking in back.”

The office market elsewhere also shows gains. The Huntsville Market Survey 2007, produced by Graham & Company in Birmingham, Ala., reports a tightening office market in Huntsville with vacancies running below 7 percent. Much of this growth was in anticipation of a recent announcement from the U.S. Department of Defense that included recommendations to move seven department entities to nearby Redstone Arsenal. This fueled office construction in Cummings Research Park, with over 1.5 million square feet of new product coming online in 2006 and 2007.

In Louisville, Ky., the merger four years ago of local city and county governments opened the way for out-of-state investors in the historic downtown area, said Janet Luesing, CPM, principal, Primas Realty Advisors.

Mixed-use properties, another concept new to Louisville, are creating a boom-let, Luesing said. Norton Commons, a new 600-acre property developed in part by her firm, includes 2,880 dwelling units for sale and rent, plus 600,000-square-feet of commercial and retail space.

In and around Nashville, the lower cost of living has contributed to continuing growth in service industries and a steady office market, Wright said.

“In California 1,500-square-feet might cost \$1.5 million, and here you get 5,000-square-feet for one-third the price and pocket the change,” he said.

GETTING A GRIP

Keeping their eyes open for new opportunities helps real estate managers in all five states.



Hill Center in Nashville is 200,000 square feet of office/retail lifestyle centers. The city's lower cost of living has contributed to continuing growth in service industries and a steady office market.

Photo: H.G. Hill Realty Co.

In Little Rock, Ark., overbuilding has lowered condominium prices, bringing outside investors into the market. Real estate managers who manage condominium associations, like David D. Henry, president and CEO of Henry Management Inc., increase their incomes by taking on the management of units owned by those investors.

In central Arkansas where the number of new residential units is down—from a total of 2,000 added in 2007, to only 260 added in the first quarter of 2008—occupancy rates also are down, Roachell said.

“You have to give away two-months rent—that’s standard,” Roachell said. “We went out on a limb and tried three months free rent spread over the term of the lease. Even with that massive giveaway, after a year-and-half on the current market, occupancy has reached only 85 percent. But without it, my competition in a similar property has reached only 64 percent occupancy.”

To improve business, Christopher J. Wheeler, CPM, vice president of real estate for Colony Properties in Ridgeland, Miss., is beefing up his

company’s credentials, heading for the AMO designation. To keep up with environmental trends that attract tenants to new properties, the company is developing buildings with LEED certification.

Because Johnson’s company in Alabama aims to succeed on management fees alone, it has diversified, managing a little bit of everything including an industrial park, and more than 20 condominium and homeowners associations.

“Last week someone brought us 17 houses he’d managed for years,” Johnson said. “Now that it’s tougher to lease them, he brought them to me. If there were a large enough trailer park looking for our services, I’d take that, too.”

Despite the economy there always will be jobs for CPMs, Roachell said, although smaller management companies are being squeezed.

“There are jobs out there, but you may not be able to own your company anymore,” she said. “You may have to work for someone else.” □

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