



Are Brighter Days Ahead?

Lori Johnston

We can't be Pollyannish. The coming year—or perhaps years—will be difficult. Ask a variety of Sarasota and Manatee businesspeople, and they admit the outlook is challenging, with a few opportunities for growth.

And it all points back to the beleaguered real estate industry.

“Obviously the housing market has got a bleak future for a while,” says Richard Coe, associate professor of economics at New College of Florida. “I don't think anybody's expecting record levels of anything except foreclosures.”

Although he doesn't foresee a recession, Coe says he's pessimistic about the national economy. “We're looking at some sluggish times for at least six months,” he says.

The Florida and local industry leaders we interviewed may not agree on the timeline to get out of the current slump, but everyone agreed 2008 was going to be challenging. Here's their 2008 forecast.

Jack McCabe, Florida real estate consultant, McCabe Research & Consulting, LLC, Deerfield Beach

What's your outlook for the coming year?

We [Florida] have double pneumonia. We're already in a recession. I think we're going to be in the negative for the next couple of years. It's supply and demand, market dynamics. Prices [for residential real estate] have to drop. Most people don't understand prices are going to come down considerably more, probably 10 to 15 percent a year for two to three more years.

Do you think Florida is losing population?

People are not moving here right now. The only buyers of real estate are the Europeans and vulture buyers. End users are not in the marketplace. We're losing families because of the high cost of living, insurance and taxes. We're losing seniors to half-back states. They don't want to pay \$12,000 in taxes when they're here for three months a year. A lot of people in the Northeast are putting off buying until they see what happens. Midwesterners aren't buying because they've been taking big hits.

What do you see as the state's biggest challenges?

The problem for the next two to three years is budget cuts and no additional money for infrastructure. The Legislature is going to have to cut \$2 billion. We're going to see a big

battle between state and local municipalities for spending limits. You're not going to see a lot of construction in the next two or three years. Projects are being canceled. We're going to see construction shut down. A floodgate of litigation is coming as people try to minimize their losses. In Miami-Dade we have a huge case of mortgage fraud that involves real estate brokers and appraisers. We're also going to have to have some kind of control on insurance rates. Taxes are going to be nowhere near the problem insurance is going to be, since taxes are going to come down as prices of real estate comes down.

When will the market turn around?

It will be two or three more years once prices come down enough that people want to live here again. The end user is what makes everything work in Florida. The good thing about what's happening is that it's going to weed out a lot of people—mortgage brokers, realtors, bankers—who were not professional. They'll improve their standards. Florida will become affordable like it always was. That's when we'll see the economic engine start up.

Tom Quale, president and CEO, LandMark Bank, Sarasota**What challenges will the financial industry face in 2008?**

The obvious challenge we're facing, as is every other business in the area, is the declining real estate market. It has been so soft that it's affected our customers and their ability to make a profit and have cash flow. Our average balance per customer has declined.

How will Sarasota fare compared to other markets?

Our market has been hit harder than the national market because our real estate prices escalated 30 percent per year for three years in a row. We're having a bigger correction than the rest of the country. I think we'll have continued softness in the next several months. At some point we're going to reach the bottom of the business cycle and then ride back up.

How long before the cycle swings back?

It could be anywhere from six to 18 months from now. We're going to be experiencing more foreclosures in the coming months. We're seeing more trickle-down effect, such as subcontractors laying off people.

Jay Brady, executive director, Gulf Coast Builders Exchange**What's your outlook for the coming year?**

I think 2008 is going to be a challenging year. A lot of commercial projects have approvals to move forward, but we're waiting to see how many will actually do so. A lot of hotel projects are being proposed, and people are starting to wonder if there is enough demand. Similarly, there's also an interest in either converting back to apartments or building new apartments.

Why are developers hesitating?

Impact fees have increased significantly in the past year. In Sarasota County, they're being phased in, and another increase phase is scheduled for the middle of 2008. There's some discussion that if the economy hasn't improved a lot by then, that increase could be held off. Sarasota County also just voted to increase residential permit fees and added a lot of new fees.

Who else also may be affected by the real estate slowdown?

Charitable organizations may start feeling the hit this next season. The real estate and construction industries have been really generous to many area charities. When you have to borrow money to pay your employees, you've got to think twice about borrowing money just to give it away.

Scott Sosso, owner, Prudential Palms Realty, Sarasota**What do you expect to happen in residential real estate in 2008?**

It is hard to predict because of the mortgage crush we're going into. People say that maybe the mortgage [situation] will not affect us as much because a lot of people pay cash. There are still significant amounts of transactions where people get mortgages. If those restrictions are loosened up a bit, depending on that industry and clearing up the issues in the credit markets, I think 2008 will be flat.

What changes do you expect regarding prices and sales volume?

Transactions with people in foreclosure dramatically lower the average sales price. When they say average sales prices are falling, it's not really an accurate number to go by. Transaction counts have continued to be really good. It shows that the supply for people going to purchase houses hasn't changed that drastically. I think the prices are going to stay pretty steady. Right now, they're right around 2003-2004 pricing.

What's the biggest upside to the region's market?

Builders have stopped building. So we're not like Miami and other major regions in Florida that have all this inventory coming onto the market. Our inventory levels are starting to come down, and once that comes down 25 percent, I think our market will start to pick back up.

Virginia Haley, president, Sarasota Convention and Visitors Bureau**What's your outlook for tourism for 2008?**

We're coming off a record-breaking year. The majority of bookings [for 2008] are on par. About 15 to 20 percent of properties are doing a little better than last year; [another 15 to 20 percent] is doing not quite as well. That tells me we will probably not break records this coming year, but that business will be on par.

What were the increases in 2007?

A slight increase in occupancy, 1 or 2 percent. We saw strong, continued growth in average room rates. The high [as of September] is \$238 in March; the low is \$110 in August. We've seen strong increases in visitors spending outside of their lodging. The total in 2006 per day was \$110. So far in first quarter of 2007, it was \$115. The first quarter last year was \$104.

What opportunities do you see in 2008?

Changes in downtown Sarasota, downtown Venice and St. Armands Circle don't seem like a lot, but they're huge. Some of our major properties have made significant investments. The Hyatt is undergoing a renovation. That will be finished in '08.

What does that say about the tourism sector?

It's always a huge sign of overall health. You're not going to attract investor firms to make that kind of commitment unless they feel they're going to get that kind of a return.

What are the challenges?

The lack of affordable air travel, particularly between the U.K. and Florida.

What opportunities exist?

Sarasota from a cultural aspect is a year-round destination. That is a distinct advantage for us. Another significant area is the growing trend toward educational travel.

Mark Chait, director of leasing, Benderson Development Co.**What's your outlook for the retail sector?**

Retail in 2008 is going to be very strong. Especially in the areas of Sarasota and Manatee where we're developing, there are holes or gaps where certain retail isn't represented.

Is high-end retail one of those gaps?

There is a big gap on the luxury end. The luxury market is one component of University Town Center. [Neiman Marcus and Nordstrom are among slated retailers at the I-75 and University Parkway development.] A more traditional power center on the west side of the property, where SuperTarget is, will have big-box retailers including Sports Authority, Bed Bath & Beyond and PetSmart. We're constructing the west side right now, which should be completed in spring '08. For the east side, we're looking at last quarter '09 completion.

Why are retail expectations still fairly positive, considering the housing market?

There's a bit of a lag. There was so much increase in housing, and even though the housing now is having some tough times, the population increases out east in Sarasota and in the southern part of Manatee certainly [have resulted in] a demand.

Are any retailers holding back?

Not the larger national regional retailers. Some of the smaller local retailers and certainly in those segments that directly sell products related to the housing market—local furniture stores, flooring, anything related to the housing market—have been affected. Local restaurateurs have [also] been affected.

Dan Miller, managing partner, Startup Florida Ventures**What's your overall sense of the tech industry?**

Most of the locally based technology companies are selling nationally, so they're not impacted day to day by the real estate market. That's the good news. Overall, if and when the national economy does start to slow down because of real estate, that's going to impact businesses all over.

What challenges are local technology companies facing in 2008?

Finding and attracting the technology talent. It's been a challenge over the last three to four years because both the price of real estate and the cost of living continue to rise. Probably the biggest factor still impacting the companies is the amount of what I call critical mass. We

just don't have the density of a number of companies here. Somebody has to make that evaluation from a lifestyle standpoint and really believe in the company they're going to come and work for.

What types of start-ups are increasing?

Web-based application companies—companies offering their solutions as a service. I think this is not specific to this area, but overall there's less of a requirement for investor capital to build out those kinds of companies.

Is there any positive news about investment dollars?

The Florida Legislature has passed the Florida Opportunity Fund. The state has committed to investing and facilitating early stage technology, and they're going to do it through this fund. That won't be the answer to every problem. The challenge continues for Florida entrepreneurs—how to connect with investors.

Moody Chisholm, CEO and group director, Manatee Healthcare System**How will the healthcare sector fare in 2008?**

We are seeing an increased amount of bad debt. A lot of it comes from the fact that so much of the business in our market the last few years has been dependent on real estate and construction. So that's affecting us because we have more people who don't have a source of income, or they can't afford to pay for their healthcare, or they don't have insurance, period. About 25 percent of the business we see is either uninsured or the indigent, low-income population.

Any positives?

A lot of people complain about the number of seniors we have in this market. I certainly don't. It helps us to stabilize in periods like this. They're not as impacted by some of these factors as the rest of the population.

What's the impact on the system?

Thankfully, we're having a better year than 2006, although we are still far from where we would like to be. The operating margin for hospitals in Florida is about 4 percent on average. We are right about at the state average. An operating margin of 4 percent is frightening. You're talking about after you pay all your bills, there's only 4 percent left.

Where do you expect operating margins to be in 2008?

We should certainly like to see it grow at least a couple of points. Our hope is that the investment we made in this new tower (which opened in June) are going to help.

Peter Straw, executive director, Sarasota Manatee Manufacturers Association**What's your outlook for the sector in 2008?**

The high-tech, value-added companies—the kind we encourage—are going to continue to grow in niche markets. We're going to see some pushback or backlash from low prices in China. The question is: Does the retailer absorb the loss to maintain the low price structure, or hopefully does it start to bring the economies into balance where the U.S. manufacturer is

now competitive again for certain products? If it's really labor intense, I don't think we're going to see the last scenario.

What types of manufacturers have opportunities to grow?

We're going to see more companies prospering that are tied to sustainability and the green movement. Green doesn't necessarily mean unprofitable. We will see an uptick in companies involved in biomedicine. Those types of products will be doing well for the next five to 10 years. We're seeing some with defense applications that are very high-tech; those companies will continue to do well. Companies with a good international presence that have already positioned themselves in the global marketplace will do well.

What sectors are facing difficulties?

Companies heavily reliant on petroleum-based products, when you see the price of crude oil. Companies that have a lot of transportation costs included in their product.