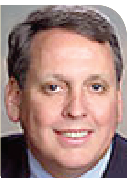
Savannah's economy: Where do we go from here?

Editor's Note: The first installment of a two-part analysis of the Savannah-area economy appeared in BiS on Aug. 12. The second segment follows.

College students

Savannah is anchored by eight colleges and universities with a total enrollment of 42,571 students, including Georgia Southern University and The University of South Carolina at Beaufort.


Harvey Gilbert

The Savannah College of Art and Design has an enrollment of 8,966 students and injected $369.7 million into the local economy in the 2007 fiscal year.

According to a GSU study, the university had an enrollment of 17,748 students, generated 9,350 jobs and pumped $748.1 million into the nine-county region in 2008.

Savannah Technical College has played a pivotal role in educating Savannah's work force by utilizing the State of Georgia's Quick Start Program to provide specialized training for major employers.

The Georgia Tech Regional Engineering Program is providing a steady supply of engineering graduates and serves as an incubator for high-tech oriented companies.

In addition to serving as major generators for consumer spending, employment, housing and supportive services, Savannah-area colleges and universities are an integral part of the region's overall economic development strategy.

Retirees

During the past 20 years, the Savannah area, including Hilton Head Island, has become a preferred destination for retirement because of its unique history, culture, quality of life, wide array of recreational opportunities, carefully planned communities, relatively mild climate and affordable lifestyle.

Savannah has also benefited from the "J" factor, in which many retirees from the Northeast and Midwest initially retire in Florida and then migrate north to the "Low Country."

Real estate market

In evaluating Savannah's real estate sectors, we reviewed historic trends and enlisted the input of recognized experts.

From 2000 through 2007, local, regional and national home builders delivered houses at unprecedented rates in Savannah and Chatham County.

"Although we still have a significant amount of unsold new home inventory in this area, it has been encouraging to watch the number of new unsold units decrease over the last 12 to 18 months," said William Lattimore III of Coastal Market Graphics. "This reduction has been driven more by the dramatic decrease in construction than by sales activity."

Lattimore said our region is fortunate to have many of the attributes that attract retirees.

"As the 'boomers' move through their retirement cycle and begin to regain confidence in their financial condition, this market segment may play an ever increasing role in our residential market," he said. "The combination of this retiree market and prospects for local job growth driven by our diverse economy, provide an encouraging long-term prognosis for the region."

Molly Bridges, president of the Savannah Board of Realtors, adds that "while we experienced an uptick in July 2009 of new listings entering the residential market in the multiple listing areas we cover, I am hopeful that this was an indicator that consumer confidence is on the rise and sellers feel they have a greater opportunity to sell their homes. Our average sales price in single-family homes is holding up well, which serves as a significant indicator of market strength."

Virtually every sign points to a stabilization of Savannah's single-family residential market as new construction continues to be limited and the supply of existing, unsold homes continues to be absorbed. The question is how long it will take for this stabilization to occur.

The retail sector has experienced sluggishness during the past two years, which is attributable to decreasing sales, the closing of several national anchor retailers and an abundance of recently developed space.

"Our overall commercial vacancy rates are higher than the past five-year average, but are still below the national averages and well below the rates of many of the recently over-developed boom markets," said Marian Smith, Broker-in-Charge of Strategic Commercial Real Estate.

Smith points to the entry of hhgregg, an electronics chain, into the former Linens N Things space and predicts that "the next 12 to 24 months will be a period of stabilization and recovery for Savannah's retail real estate market. However, the degree and timing of that recovery will be dependent on the cycles of both discretionary spending and commercial lending."

According to Marketbeat for the second quarter of 2009, published by Gilbert & Lattimore Commercial Real Estate, Savannah and Chatham County's total inventory of industrial space was 44,026,938 square feet, with a marketwide vacancy rate of 19.1 percent.

From 2003 through 2008, approximately 10,000,000 square feet of institutional-grade warehouse space was constructed in Chatham.

The industrial market should continue to move toward equilibrium as no new institutional-grade warehouse space is anticipated during the next 24 to 36 months and the overhang of speculative space is systematically absorbed. A significant number of manufacturing firms are eyeing Savannah as a preferred location.

Gilbert & Lattimore's second quarter 2009 Marketbeat reflected a total office inventory for the Savannah MSA of 3,372,190 square feet with a vacancy rate of 24 percent.

Savannah Land Co. delivered the only Class A building in 2009, the 38,750-square-foot Stephenson Center building. Savannah's office market is expected to experience a slight increase in the vacancy rate for the balance of 2009-'10 with no speculative multi-tenant office space in the starting blocks.

Conclusions

Our close look at the Savannah-area economy reaffirms its overall level of diversification and the fact that many of its sectors are contra cyclical even in a relatively severe economic downturn. There are a number of factors in the real estate market sectors to be optimistic about over the long term.

However, there is uncertainty on the horizon related to the national and global economies. It is difficult to ascertain when banks and financial institutions will significantly reinject capital into the real estate development sectors. But most pundits point to another 24 to 36 months before this occurs and the overall economy begins to significantly rebound.

In closing, we envision limited new development in Savannah's residential, retail, office and industrial sectors during the next 36 months.

As the general economy improves and the overhang of speculative product is absorbed, we see well-capitalized local, regional and national developers re-emerging in the Savannah market in order to develop niche projects that are capable of being financed based on established market feasibility.

Once the Savannah-area economy and the speculative real estate sectors have returned to equilibrium, we envision Savannah regaining its status as a preferred place to develop, given the returning influx of retiring baby boomers along the I-95 corridor, the rejuvenation of the port and tourism sectors and the continued stability of the military and college student sectors.

This bodes well for the Savannah-area economy and real estate sectors during the next five to 10 years, as, simply put, Savannah has evolved into an ideal place to live, work and play.

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