

Industry News:

Commercial Property Owners Brace For Economic Impact of Gulf Oil Spill

Owners of Hotels, Resorts, Condos and Other Commercial Property Face Pall of Uncertainty -- Just As Economies and Housing Markets of Florida and Other Gulf States Were Showing Signs of Recovery

With estimates of the economic losses of the Deepwater Horizon oil spill already as much as \$11 billion in counties along Florida's Gulf Coast alone, owners of income-generating property throughout Florida, Alabama, and Mississippi face varying degrees of financial exposure to the crisis.

Perhaps no commercial property owner is more exposed to the spill across its portfolio as the St. Joe Co. (NYSE: [JOE](#)), one of Florida's largest real estate development companies and northwest Florida's largest private landowner. Jacksonville-based St. Joe, primarily engaged in real estate development and sales, owned about 577,000 acres as of March 31 -- primarily in Florida's northwest Panhandle, where the coast could be under siege by the oil slick for months.

About 70% of St. Joe's property is within 15 miles of the Gulf of Mexico, where a BP plc drilling rig exploded April 20 roughly 175 miles to the southwest, killing 11 crew members and causing a massive deepwater oil leak. The company's land-use entitlements in hand or in process totaled about 31,600 residential units and about 11.6 million square feet of commercial space as of March 31, as well as an additional 646 acres with land-use entitlements for commercial uses. So it's hardly a surprise that St. Joe has been especially active in monitoring the spill.

As brown tar balls began washing up on the sugary white sand of Florida Panhandle beaches this week, the U.S. Coast Guard calculated the amount of Gulf coastline affected by the spill at 120 linear miles and growing. Tar was expected to wash up as far east as Okaloosa County between Santa Rosa and Walton beaches and northwest winds are expected to push the oil slowly along the Panhandle coast in coming days.

From Biloxi, MS, to Mobile Bay to Pensacola, crews continued to lay containment boom and hoist red "no swimming" flags on the beaches.

In the potential path of the oil slick are two tony St. Joe resorts on the Panhandle, the WaterColor Inn & Resort in Santa Rosa Beach, FL, about 65 miles east of Pensacola, and WaterSound, about 20 miles northwest of Panama City. As of Wednesday, St. Joe reported that neither beach property showed evidence of tar damage or imminent threat from the spill.

"Although we have not yet seen any direct impact from the oil spill on our beaches, we have taken specific measures which we believe will put us in the position to quickly assess and address any potential damages," said St. Joe President and CEO Britt Greene on Tuesday. "Our numerous resort activities and events are in full swing [at WaterColor and WaterSound] and offer even more ways and reasons to enjoy the outdoors. I am hopeful that summer will bring only sunny skies and crystal clear water."

On May 3, the company announced it had engaged a number of experts in the oil, environmental and engineering industries in developing a detailed action plan with contractors and clean-up specialists as part of a "comprehensive and aggressive" response. The developer retained The Shaw Group, experts in the oil and environmental science industries, to assist in oil spill response preparation, spill tracking and drawing up contracts for clean-up and testing if necessary. St. Joe is taking aerial and ground photos and collecting soil samples to document the condition of its beachfront assets.

In updating that plan Tuesday, St. Joe said emergency operations officials for the State of Florida, Bay County and Walton County are starting proactive measures, such as organizing cleanup teams, construction of sand berms and laying boom, to protect the sensitive coastal dune lakes in Walton County, including those surrounding the resorts.

"In addition, we are documenting all expenses associated with preparing for and dealing with this spill and have retained a specialized firm to assist in the preparation and filing of claims for reimbursement from BP," the company said.

Despite St. Joe's proactive efforts, shares of the company had fallen 35% since April 20, closing at \$23.18 in Wednesday trading. The spill partially overshadowed two important events for the company, which like other Florida resort and residential developers was hit hard by the collapse of the housing and condominium market two or three years ago.



The Northwest Florida Beaches International Airport opened in May on land near Panama City donated by St. Joe, preceded by the April launch of the VentureCrossings Enterprise Centre, a 1,000-acre retail, hotel and industrial development in West Bay to be developed by St. Joe adjacent to the new airport. The company will move its headquarters to VentureCrossings in summer 2011.

St. Joe landed Southwest Airlines to serve the new airport, centered within some of the company's most valuable land holdings, which include 300,000 acres within 40 miles of the new facility. "We are prepared to benefit from the strategic commercial and residential developments that will generate recurring revenue streams and cash flows. One of the keys to our success will be minimizing the development risk and maximizing the value creation through proper phasing and absorption," Greene said.

Meanwhile, analysts are still in the earliest stages of trying to assess and forecast the economic damage from the oil spill.

CoStar Group Vice President of Analytics Norm Miller said that due to the weak Florida Coast housing market, it's impossible at present to estimate the degree of property value decline from the spill. But based on a formula used to calculate the long-term effects of contamination from the Fernald Nuclear Foundry nuclear fuel plant in Ohio, and from prior academic studies, Miller used Google Maps to chart the distance between Mobile Bay, AL, and Clearwater, FL, north of St. Petersburg -- approximately 569 miles -- and estimate the size and scale of the coastal value losses.

Assuming, conservatively, that the affected areas are only one acre deep with a coastal edge line of 208.7 feet, Miller divided out the 569 miles, yielding a total of 14,396 acres affected. And that's probably an understatement in assessing the impact to environmentally sensitive wetlands, Miller said.

Land prices along much of the Florida coast are running between \$2 million and \$8 million an acre in 2009-10 dollars, Miller said. Using an average of \$3 million an acre and subtracting a 10% value hit from the oil slick, lost value would total about \$4.32 billion, according to Miller. He added that the sharp drop in St. Joe Co.'s share price, representing a \$1 billion-plus drop in market value, probably correlates to a steep drop in Florida Coast land values, at least for the short term.

"Toss this into the U.S. General Accounting Office invoice for BP along with cleanup and other damages," he said.

According to a forecast released Tuesday by University of Central Florida economist Sean Snaith, director of UCF's Institute for Economic Competitiveness, the spill could cost 195,000 jobs and nearly \$11 billion in revenue to Florida Gulf Coast counties alone. However, the institute noted the impact of graphic images from the spill beamed worldwide affect the whole state of Florida, from Orlando's theme parks to luxury hotels, timeshares and condos in South Florida in the early stages of recovery from the recession.

Moody's Investors Service in a report last month said the disaster could cost insurers between \$1.5 billion and \$3.5 billion. The economic impact of the oil spill will likely be most severe in the fishing and tourism industries, with negative credit impacts for state and local governments. Some experts say the claims could amount to tens of billions of dollars, Moody's said. Banks in the Gulf Coast region, many holding portfolios of condos in an already sluggish market, will feel the added pain of a prolonged hit to the tourism industry in Alabama and Florida, not to mention the devastation from the moratorium on oil drilling and fishing on local economies.

Owners of rental income producing property who had hoped to see healthier summer vacation rental this year are now faced with vacation and meeting cancellations and a lengthy clean up.

According to the McLean, VA-based meeting and convention industry data provider Knowland Group, 60% of Gulf Coast hotels it surveyed after the Memorial Day weekend had suffered group booking cancellations -- up 18 percentage points from a survey conducted two weeks prior, and up 25 percentage points from the group's initial survey on the effects of the Gulf oil spill on the region's hospitality industry in early May. Further, about 28% of the hotels reported significant difficulty in booking future events, double the amount from the previous survey.

Some owners have reported filing claims with BP Plc for lost rental income, according to media reports.



Other observations by Moody's that provide a window into future economic impacts include the following:

Florida

Of all the Gulf Coast states, Florida has the largest coastline and an extremely fragile ecosystem, which puts it at significant economic risk depending on the migration pattern of the massive oil slick. Florida lacks an income tax and relies heavily on sales tax revenues, particularly those derived from tourism, which has suffered during the current recession. Tourism and recreation spending totaled \$65 billion in 2008, resulting in about \$3.9 billion in sales tax receipts, or about one-fifth of Florida's total sales tax revenues.

"Near-term credit risks in Florida appear to be associated with the western Panhandle coastal communities, although there is significant potential for broader statewide impact," Moody's said.

The Panhandle area is less densely populated and the immediate economic impact may be manageable, with an expectation of reimbursement of losses from cancelled reservations and local fishing activity.

However, "the longer-term outlook could be much more negative," Moody's said. "The state's high dependence on tourism dollars and jobs is significant, and a gradually worsening disaster associated with any part of Florida's 1,197 coastline miles could likely have long-term implications even greater than the recent global recession or Hurricane Ivan in 2004."

Mississippi

Several large communities, including Biloxi, Gulfport, and Pascagoula, are the center of the state's important tourism industry which features both Gulf Coast beaches, casinos and sport fishing -- all of which stand to be disrupted by the spill. Leisure and hospitality account for over 20% of the jobs in the Biloxi-Gulfport area, more than double the national average.

Many commercial and sport fisheries have already been closed due to the spill. State revenue collections may be negatively affected by the spill, including a loss of sales tax revenues if tourism declines. Gaming taxes collected in 2009 amounted to \$171 million, or 3.7% of tax commission collections.

For local governments in Mississippi, the primary concern also appears to be what impact the oil spill will have on jobs and on the tourism industry. A softening in tourism will also impact sales tax revenues, gaming revenues, and hotel taxes.

Alabama

Moody's predicted the impact on coastal fishing and tourism in Alabama will be severe, but of less concern for the state's credit rating as a whole given the state's economic diversity. An economist at BBVA Compass, a Birmingham-based bank, estimates that the spill could drain \$191 million (0.11%) from the state's economy. Gov. Bob Riley has set into motion a plan to prevent oil from entering Mobile Bay. If the plan fails, however, port activity could slow or stop, affect the City's of Mobile's commercial activity and sales tax revenues.

Baldwin County, which includes many of the state's coastal communities and beaches, is expecting an increase in hotel cancellations. Many local rental units and hotels have eliminated cancellation fees, hoping that it will entice tourists to hold their current reservations. Baldwin County officials fully expect labor costs related to the oil spill to be paid for in their entirety by BP. Over the long-term, however, the local economy could suffer outmigration and extended loss of tourism, depending on the severity of the damage caused by the spill.

Source | CoStar | 06.09.10

