

THE SLATIN] REPORT

REAL ESTATE INTELLIGENCE

March 29, 2006

BOOMING BAY COUNTY

Bay County Florida is about to become one of the fastest growing areas in the nation. Who'll benefit most?

Dees Stribling



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The new Bay County welcome mat in the form of an airport.

Build it and they will come. Occasionally that happens in real life, and in the case of Bay County, Florida, it's about to happen in a big way. By the end of this decade, Bay County (and its main city, Panama City), promises to be among the fastest growing areas in the state, if not the nation.

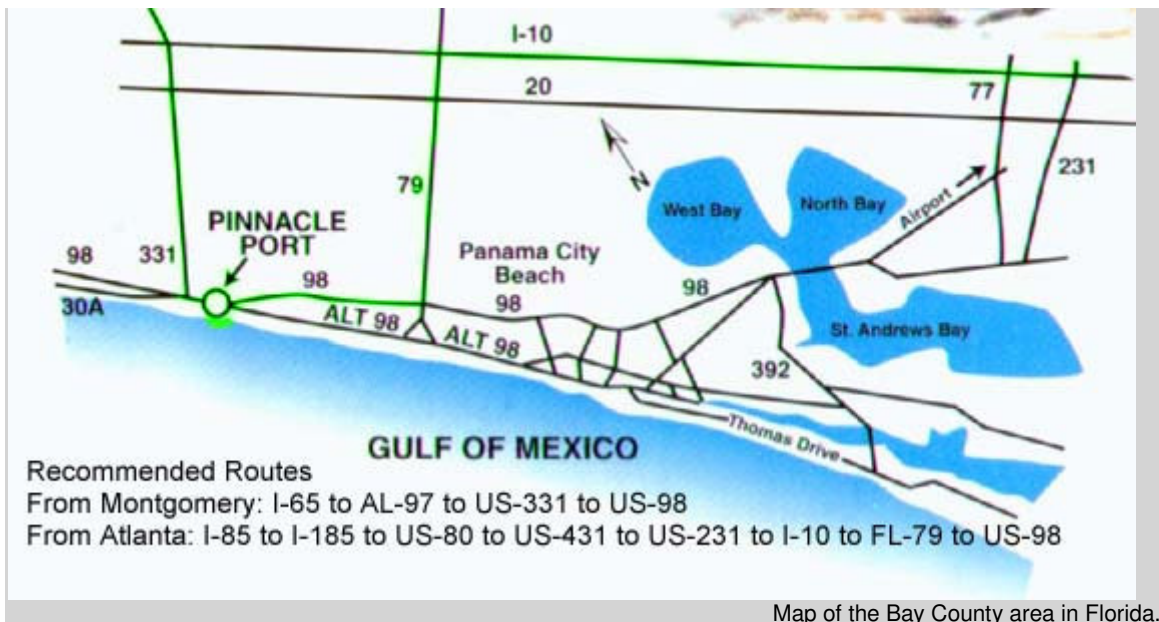
"It" in this case is a new international airport in Bay County, the first major airport developed in the United States in years. "They" are home-buying retirees from the Midwest and Northeast, time-sharing vacationers, beachfront aficionados, spring-break revelers, real estate investors, developers, speculators and flippers. The rush is just beginning.

As Florida counties go, Bay County is fairly small and has seen only modest growth in recent years, with its population expanding from about 127,000 in 1990 to 155,000 now, according to U.S. Census Bureau

numbers. The county traverses a complex of bays (St. Andrews, West, North and East bays) on the Gulf Coast, with access to miles of desirable beaches; it is part of the "Redneck Riviera," to use a term no doubt frowned upon by local boosters, and it draws vacationers and second-home buyers mainly from the rest of the Florida Panhandle and nearby Alabama and Georgia.

It's been that way for decades in Bay County. For one thing, the Interstate system bypasses the area, with the major east-west route I-10 connecting Pensacola to Tallahassee, though a couple of four-lane U.S. routes go to Panama City. More importantly, the current Panama City-Bay County International Airport is small and its capacity is seriously limited.

In fact, at just over 6,300 feet, the airport's main runway is one of the shortest used by commercial airlines in Florida, and the runway safety area (that is, the runway overrun) doesn't meet current FAA standards, though it was grandfathered in. Another problem for the current airport is that flight patterns into it are restricted by the presence of two major Air Force bases nearby.



Map of the Bay County area in Florida.

"It was clear by the mid-1990s that something had to be done, and the question was whether the existing airport could be expanded, or there needed to be a new airport, and if so, where," says Randy Curtis, executive director of the Panama City-Bay County Airport and Industrial District (the airport authority). "At first, plans to expand the current runways were seriously considered."

Since the airport is hemmed in on its landward side by residential properties, expansion would have meant expanding into St. Andrews Bay, a prospect that conservation groups vigorously opposed. Not only that, any runways close to the bay are vulnerable to storm-surge damage, a risk long acknowledged but which the hurricane season of 2005 impressed more fully on the entire Gulf Coast. Because of these concerns, the FAA eventually nixed any expansion of the existing facility. A new airport was the way to go.

But where? That's where Jacksonville-based St. Joe Co. comes into this story, as a sine qua non of a new airport, or really any major development in the area. Though it isn't well known outside Florida, the St. Joe Co. (NYSE: JOE) is the largest private landowner in the state, holding roughly a million acres, which is even larger than the much more famous Disney holdings. Most of St. Joe's land is in the Panhandle, and includes about half of Bay County.

JOE's Florida land empire, acquired by a scion of the DuPont family and his partners in the early decades of the 20th century, used to serve mainly as a source of raw material for the company's paper mills. As such, the company's holdings went largely undeveloped. But in the late 1990s, the company began to transform itself by divesting its industrial operations and becoming a real estate company. Since 1998, the company has developed about 4 million square feet of commercial and residential real estate in Florida.

Early on it became apparent that the company's interests as a landowner in Bay County and the airport authority's interest in finding a new home dovetailed. St. Joe had the raw land, and the airport represented a

way to spur development of the company's holdings.



The new Panama City Bay County airport will cost \$312 million.

"The idea is simple, but the planning was complicated," says Curtis, referring to the airport relocation. With plenty of bad examples of sprawl elsewhere in the state, the laws governing large-scale developments were changed in 1998 with the goal of bringing some semblance of master planning to projects as large as the redevelopment of Bay County. It isn't clear yet if the new laws will serve as checks on sprawl, but in any case they've helped fashion the new Panama City-Bay County International Airport.

Instead of piecemeal zoning and approval for a new airport and the surrounding commercial development, the project is going to follow a blueprint known as the West Bay Sector Plan, essentially an agreement between the state and county about what goes where. The centerpiece of the plan, the new airport, will go on undeveloped land near West Bay, but not too near, to protect it from hurricane damage.

Beginning in 2001, the West Bay Sector Plan took about a year and a half to hammer out. It included negotiations between the state and local governments, dozens of public hearings, and vocal input from various conservation groups, such as the Nature Conservancy, which was brought in as an independent consultant during the process. All together, the plan covers roughly 75,000 acres, about 30,000 of which, mostly waterfront along West Bay, are being reserved as a conservation area. This set-aside is the state's "single biggest land conservation effort by a private company," writes Daniel Shaw, an assistant county manager and director of development services for Bay County. "The preservation area included at West Bay is roughly the same size as all of Bay County's existing cities combined."

St. Joe donated about 4,000 acres for the airport itself, and another 9,800 acres as a conservation easement. Since much of the rest of the land in the West Bay Sector (along with acreage outside the plan) will be ripe for commercial and residential development by St. Joe (or those it might sell sites to), the donation represents an astute investment in the company's growth as a real estate developer. According to Jerry Ray, a spokesman for St. Joe, the company already has entitlements for more than 1,000 acres of commercial development and 6,000 residential units near the new airport. That will just be the beginning for the giant landholder.



St. Joe donated 4000 acres for the airport itself.

"The record of decision by the FAA on the new airport is expected in September," Ray notes; that would represent the final go-ahead for project. "The state permits are in hand, the land use entitlements are in place, and the financing for construction will be finalized after the record of decision. The airport project has a lot of momentum now."

If all goes according to schedule, the airport will be completed by late 2008. Like the current airport, it will have two runways (with expansion room for a third), but they will be considerably longer than the existing ones. There will also be terminals and other facilities totaling 100,000 square feet. Funding for the \$312 million project will be roughly divided in thirds between the federal and state governments, and local sources.

"The new airport's going to be an enormous spur to growth of this area," says Ray. "There will be a significant increase in passenger service to and from the Midwest and the Northeast especially. The populations of those regions represent prime markets for residential real estate in this part of the state, which still has a lot of room to grow."

Curtis agrees, and draws a parallel to the growth experienced by the Ft. Myers, Fla. area in the years after the completion of the Southwest Florida International Airport in 1983. From 1990 to 2000, the population of Lee County (Ft. Myers is the county seat) grew 31.6%, according to the Census Bureau, besting the overall Florida average population growth of 23.5% during the same period. By 2004, Lee County's population had topped 514,000, making it the 89th-fastest growing county in the nation.

"The planning process isn't the same, but in a lot of other ways the situation is comparable to Ft. Myers 25 years ago," says Curtis. "The relocation of the airport is going to be the trigger to remake the entire Bay County area."