

Harshman & Co. Inc. is a full service commercial real estate firm specializing in commercial and industrial sales and leasing, property management, consulting and site selection.

Harshman & Company, Inc.
COMMERCIAL REAL ESTATE BROKER

COMMERCIAL REAL ESTATE MARKET UPDATE

Spring, 2016

Licensed Real Estate Broker | 1575 Main Street, Sarasota, FL 34236 | (941) 951-2002 | harshmanrealestate.com

We are proud to provide this quarterly Commercial Real Estate Update so readers can remain up to date with current and accurate data, observations and forecasts. At Harshman & Co., we work diligently to collect notable material and cover multiple market sectors for assistance in making informed real estate decisions. We welcome suggestions for future topics and content at service@harshmanrealestate.com. Please let us know, as well, if you would like to receive this newsletter in an electronic form.

Sarasota's Evolving Marketplace

Sarasota's commercial real estate landscape has evolved over the past five years to one that is comprised more than ever before of national retailers and investors.

That's primarily because Sarasota is becoming recognized for its sophisticated population and abundance of wealth – traits retailers, developers and investors alike look for when considering where to allocate capital. The trend also speaks to the perceived value that Sarasota real estate still has on a national scale, relative to larger markets like Atlanta, Miami and elsewhere, as well as the overall confidence investors now have in Southwest Florida.

The presence in our market of national companies like Taubman Centers at the Mall at University Town Center; TerraCap Management at the four-building Gateway Professional Center office complex on Cattlemen Road and at Kane Plaza downtown; GreenPointe Communities at the 15-acre, former Sarasota Quay site downtown; apartment developer Carter downtown; and CapStone Management LLC downtown at the

Ringling Square and PNC Bank office buildings demonstrates a growing desire among institutional investors to be located here.

Additionally, Benderson Development Co.'s headquarters' relocation from Buffalo, New York, several years ago continues to send ripples through our market and a message to others. Benderson, one of the nation's largest privately held real estate developers, has also been a major force in transforming Sarasota into more of an institutional marketplace.

Collectively, these half-dozen firms alone have invested more than \$700 million regionally to date, and in the case of Carter, CapStone and GreenPointe, future significant capital outlays are likely to be forthcoming.

Also, more than a few of these investments indicate that sellers are relying increasingly on capitalization rates rather than offering product below replacement costs. CapStone's nearly \$16 million purchase of the PNC building, for instance, is noteworthy for its \$286-per-square-foot price – a robust figure even after considering future development potential.

Industrial Market Update

The area's industrial real estate sector is still languishing overall, despite some bright spots and indications of recovery. While many distressed Sarasota-area industrial properties – defined as "flex" space with combinations of office and warehouse, distribution or manufacturing – left over from last decade's growth cycle and subsequent bust have been sold to new investors at discounts, market-rate properties have not enjoyed the same attention.

In fact, many market-rate industrial buildings have failed to attract buyers and are being offered at or below replacement costs. Moreover, almost no new construction of new flex space is being planned in the Sarasota area, where there is 18.7 million square feet of industrial space

overall. At present, roughly 2.02 million square feet is available for lease, a 10.1 percent vacancy, while 713,616 square feet is on the market for sale, or 4 percent of the overall market total.

The lack of new construction is significant at this point in the current commercial real estate cycle because industrial buildings – and ultimately their attractiveness to investors – offer a unique window into the area's employment health. Typically, flex buildings are occupied by small, service-oriented businesses that cater to homeowners or other small businesses.

When the economy is robust, those businesses flourish and move into flex spaces to accommodate increased demand and as a testament to their confidence in future growth. It is then that they also tend to add new employees to meet demand.

When the economy is uncertain or contracting, by contrast, small businesses that occupy flex space often have to shed workers to save money and contract their space needs.

That the area's industrial sector has failed to fully recover investor demand in what is now the fourth year of a typical seven-year recovery period is telling, and indicates that perhaps Sarasota's service-dominated economy has peaked for now.



John B. Harshman, Broker
jbh@harshmanrealestate.com

Request our newsletter by emailing service@harshmanrealestate.com or by visiting our website.

View our listings on our website: www.harshmanrealestate.com or on the following Multiple Listing Services: www.mfcre.com or www.loopnet.com

Cash Remains King

Even as interest rates remain at historic lows and financing packages have gained luster in the years since the official end of the Great Recession, commercial real estate buyers are continuing to snub traditional lenders in favor of private equity or similar funds.

Increasingly, too, many buyers are foregoing debt altogether and paying cash for properties – mirroring a trend that has been a part of the area's now four-year-old residential real estate recovery.

In Sarasota, cash deals have occurred recently for land tracts at Boulevard of the Arts and Coconut Avenue and at Coconut Avenue and 5th Street, in the city's burgeoning Rosemary District. This is a trend that will likely continue throughout 2016 and beyond, Harshman & Co. believes, the

result of a growing belief among some lenders that commercial real estate, as a general investment class, may be becoming overheated. If that contention takes root, many banks and insurers may institute more onerous loan requirements for equity and loan coverage and scrutinize potential deals to a greater degree going forward this cycle.

Office Market Update

Despite the series of high-profile transactions previously mentioned, involving TerraCap and CapStone, among others, Sarasota's much-maligned office market continues to struggle overall. Vacancy rates have declined, somewhat, to just above 10 percent over the past several months, and large blocks of quality space are becoming harder to find.

But the sector's double-digit vacancy still carries a stigma that will prevent new construction of any significance from occurring. The only significant new office space on the horizon in downtown Sarasota, for instance, will be roughly 11,000 square feet contained in the Kolter Group's planned 12-story The Mark, a mixed-use project set to contain more than 150 new residential units and upwards of 35,000 square feet of retail space.

The office market, too, like the industrial sector, serves as an important employment bellwether. And while mobile technology has allowed more workers to do business outside of the traditional confines of office buildings, that trend is not proficient enough yet in Sarasota to more than marginally effect the office vacancy rate. Instead, office vacancy continues to be governed more by a lack of expansion or relocations among businesses.

Featured Properties

High Quality Warehouse Opportunity

This unique flex property offers a strikingly modern office space and a single-column, 14,700-square-foot, block-constructed warehouse. Equipped with truck-well and grade-level 12-foot by 14-foot overhead doors, this building is ideal for businesses desiring a quality structure and a superior location. The property also contains land that could accommodate an additional 15,000 square feet.

1.80 acres of land, 14,700-square-foot office/warehouse, zoned ILW. \$1,750,000



Exciting Downtown Retail Space

The former Morrison Cafeteria and Golden Apple Dinner Theatre building on Pineapple Avenue occupies a special place in Sarasota history. Today, the 14,000-square-foot space is fully renovated and is awaiting new tenants to build on its storied past. Uniquely situated next to the famed Sarasota Opera House and near Five Points Park, the Selby Library and a host of quality restaurants, the building would be well suited for retail. A nearby city-owned parking garage on Palm Avenue provides convenient parking opportunities, as well. Two units remain available, measuring 2,250 square feet and 6,250 square feet, respectively.

Prices range from \$22 per square foot to \$30 per square foot, triple net.



Enticing North Port Development Opportunity

This exciting mixed-use opportunity won't last long! Located between River Road and Sumter Boulevard on Tamiami Trail, the property is zoned for as many as 15 units per acre of residences, plus retail space. It also benefits from being near the upscale, master planned community of Thomas Ranch and the Warm Mineral Springs, a tourist haven. From a retail perspective, the property is also near to Benderson Development Co.'s Cocoplum Village Shops, a retail center occupied by Publix Super Markets, Sports Authority, Chico's, Hobby Lobby, Starbucks, First Watch Restaurant and Chipotle Mexican Grill, among others.

60+ acres of vacant land, zoned PCD. \$4,250,000 (\$70,000 per acre)



Harshman & Company Available Properties



3808 N. Tamiami Trail
93,218 square feet (2.14 acres) of land,
14,286-square-foot building, zoned NT.
\$1,750,000



4242 Gypsy St.
2.2 acres, with 5,216 –square-foot office/
warehouse, zoned CI (Sarasota County).
\$595,000



4041 Sawyer Ct
1.6 acres, with 20,575-square-foot warehouse
building, zoned CI (Sarasota County).
\$1,800,000



1620 Main St. Unit 10
1,100-square-foot office condominium,
zoned DTC.
\$149,000



2401 Commerce Parkway (North Port)
13.19 acres (7.89 useable acres) vacant land,
zoned ILW.
\$650,000 (\$1.89 a useable square foot)



North Port Park of Commerce
7 lots ranging from 1.25 acres to 2.15 acres,
zoned PC.D.
**Price ranges from \$260,000-\$675,000
per lot; \$4.78 to \$7.22 a square foot**



100 and 180 Center Ct, Venice
102,539 square feet (2.35 acres) of
vacant land, zoned ILW (Sarasota County).
\$1,230,468 (\$12 per square foot)



1716 N. Tamiami Trail
40,880 square feet of vacant land,
Permitted for 35 units per acre, zoned NT.
\$1,350,000



Fruitville Road Assemblage
91,851 square feet (2.11 acres), zoned DTE.
\$3,501,540



7100 S. Beneva Road
3,812 rentable square feet in two-
tenant building, With private parking
lot, zoned OPI (Sarasota County).
**\$13 per rentable square foot,
triple net**



6561 Palmer Park Circle
5,000-square-foot, newly
constructed office, may be divided
w/2,500-square-foot minimum,
zoned ILW.
\$16 per square foot



**3150 S. Tamiami Trail –
SALE PENDING**
2,772-square-foot building,
17,224 square feet of land,
zoned OPB. Leased Investment.
\$895,000



**5951 McIntosh Road –
SALE PENDING**
242,336 square feet (5.56 acres)
of vacant land, zoned ILW.
**\$3,635,040
(\$15 per square foot)**

Downtown, Bayfront Connection Still Lacking

Though re-connecting Sarasota's downtown to its Bayfront was an oft-stated tenet of the city Downtown Master Plan 2020 when it was completed in 2001, the city has yet to install infrastructure or new traffic systems to attain that goal.

That could become even more important as more development occurs on land split from downtown by U.S. 41. Together, Kolter's Vue Sarasota Bay, GreenPointe's proposed Sarasota Bayside project and a potential Kolter addition at the Ritz-Carlton Sarasota would add nearly 1,000 new residential units, more than 400 hotel rooms and more than 100,000 square feet of retail space, for instance.

For visitors and residents alike to feel safe traversing from one section of downtown to the other, across U.S. 41, city and state transportation officials will have to formulate ways that pedestrians can access both areas without hindrance.

It remains a lofty goal but also a critical missing link to Sarasota's future development as an urban area.

Gas Prices Are Helping Tourism

Falling oil prices nationally – from a peak of about \$110 a barrel to around \$35 a barrel earlier this year – have boosted Sarasota tourism numbers and may, in turn, be positively impacting prices for local hotels and the rents retail center owners can demand from tenants.

Historically, lower gasoline prices have benefited areas like Sarasota that are heavily reliant on transient tourism traffic and snowbird retirees, and Harshman & Co. believes the current dip is generating a similar result. As such, look for both retail and hospitality sales for the balance of 2016 to carry with them more compressed cap rates, as sellers look to capitalize on higher sales, greater occupancies and increased average daily room rates. In addition, we contend that incremental bumps in oil prices will have little overall impact on potential sales, because historically the Sarasota area has absorbed increases and tolerated them without an interruption in growth.

Harshman & Company, Inc.
COMMERCIAL REAL ESTATE BROKER

Harshman & Company, Inc.
1575 Main Street, Sarasota, FL 34236

PRSR STD
U.S. POSTAGE
PAID
MANASOTA, FL
PERMIT NO. 1283

COMMERCIAL REAL ESTATE

MARKETUPDATE

View our listings on our website:
www.harshmanrealestate.com

Recent Notable Commercial Transactions

- **Sun Center Village LLC** sold 75,607 square feet of land at 41 School Ave. and 2185 Main St. to **BC School Ave LLC** for \$2,250,000 on 3/30/16.
- **IGH 1400 State LLC** sold a 12,596-square-foot building on 19,455 square feet of land with an adjacent 44,303-square-foot parking lot at 1400-1411 State St. to **KT State & Lemon LLLP** for \$5,500,000 on 3/11/16.
- **Newterra Inc** sold a 50,206-square-foot warehouse on seven acres at 730 Commerce Drive, in Venice, to **Scentsational Soaps & Candles Inc.** for \$2,500,000 on 1/29/16.
- **MEB Capital Inc** sold a 17,098-square-foot Super 8 Motel on 58,832 square feet of land at 4309 N. Tamiami Trail to **Hari OM Sarasota LLC** for \$2,300,000 on 12/28/15.
- **Centennial Owner LLC** sold a 275,067-square-foot manufacturing building and warehouse on 47.07 acres at 100 Cattlemen Road to **Cattlemen Road Partners LLC** for \$4,950,000 on 12/17/15.
- **Sarasota Main Real Estate** sold the 262,000-square-foot Main Plaza at 1990 Fruitville Road and 1991-1995 Main St. to **BBC Plaza LLC and Biter Building LLC** for \$18,100,000 on 11/09/15.

Have You Seen Our New Website?

Earlier this year, Harshman & Co. unveiled an improved website that has received rave reviews from clients and other viewers! The new www.harshmanrealestate.com features even more comprehensive data than ever before, along with listing information in a more user-friendly format and expert analysis and market insights that are the hallmark of the firm and differentiate it from others. Take a look if you haven't already, and let us know what you think.