

Harshman & Company, Inc. is a full-service commercial real estate company specializing in commercial & industrial sales, commercial & industrial leases, property management, consulting and site selection.

Harshman & Company, Inc.
COMMERCIAL REAL ESTATE BROKER

COMMERCIAL REAL ESTATE MARKET UPDATE

Fall, 2013

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At Harshman & Company, Inc. we are proud to continue our Commercial Real Estate Market Update. Our goal is to provide readers with current accurate commercial real estate market data, observations and forecasts. We work hard on collecting content for the Update and endeavor to cover multiple sectors of our commercial market. Suggestions for content and topics are always well received and you may contact us at service@harshmanrealestate.com with suggestions or to let us know you would like to receive the Update electronically.

Hot Spot

Downtown retail locations on Main Street and just off Main remain very much in demand and rents for some properties far exceed \$30 per square foot. Two components are driving this red hot area. Firstly, downtown is a fun place to live and work offering quality retail, entertainment and housing options. Secondly, quality attracts quality and this adage applies to retail locations. Look around and you will see that some property owner's renovated older obsolete buildings and provided clean, modern and attractive

locations for new businesses. Several properties downtown experienced extensive renovations and successfully attracted quality new businesses to the area. Visit Penzeys Spices, Evelyn & Arthur, J. McLaughlin, or Reason's Shoes and witness first hand testament to property owners who were visionaries and invested the energy and resources to significantly improve their spaces. The reward for the renovations were quality tenants. They win and all of downtown wins!

Industrial Sector

The Great Recession hit the industrial real estate sector particularly hard. In a relatively short time businesses failed, available tenants evaporated, many buildings became "bank-owned" and vacancies sky rocketed to over 30%. The speculative buildings were the first to fail. Other properties lost key tenants due to the recession. Particularly hard to witness were the strong businesses that simply could not survive the downturn and left a once active property vacant and often in declining repair. The resulting vacancies flooded the market with available industrial and flex-space buildings. Prices plummeted 70% to \$30-\$40 per square

foot for some properties. The market is slowly working through the available inventory but this has been devastating for the market and until the supply of distressed properties is absorbed do not expect much new construction in the industrial sector.



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Historic Development!

The single most impactful project in recent Sarasota/Manatee history is under construction as we speak. The 880,000 square foot mall at I-75 and University Parkway with its many quality national retailers will transform our area. Yes, some local retailers may relocate to this sexy new mall and some we would like to see downtown, on St. Armand's or in Westfield Mall will choose the new mall. They will be missed in the specific areas but building our community is not about each area getting a bigger piece of the pie; it's about making a better pie and this project will ultimately help our entire community.

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

Great Deals

If you are looking for office space; there are some great deals downtown! Downtown houses approximately 1,511,217 square feet of class A office space in multi-tenant buildings over 30,000 square feet. Approximately 243,938 square feet is vacant or 16%. With this high vacancy rate, opportunities for office tenants abound as the high supply has landlords competing for the few tenants looking in our market. The landlords are listening to the tenants and structuring some pretty attractive deals. When will this change? When the downtown Class A office vacancy is lowered to an acceptable 4%-7%; until then it is a tenant's market.

Downtown Land

All the bank-owned "distressed sale" downtown vacant land parcels have been sold with the exception of the Quay property and buyers are circling this property developing plans to acquire the massive 14 acres just north of the Ritz Carlton Hotel. Seventeen bank owned properties, some containing multiple parcels, have sold in the past three years. All have been cash transactions totaling approximately \$17,957,410. Developers purchased some of the properties and others were purchased by investors recognizing a "good deal". This is a prime indicator of the long term desirability of our market!

Lending is Back

The banking industry took it on the chin during the Great Recession. The banks around today weathered a perfect storm, survived and are back lending. The banking community is

most interested in lending on owner occupied properties but we are also seeing some investor programs. A few lenders are even considering vacant land loans provided the terms align within their parameters. The prize – if you qualify - the interest rates! WOW- 4-5% money! Who would have thought 20-years ago that interest rates would be this low?

Insulated from the Great Recession

During the Great Recession most commercial real estate lost 25%-90% of value. As is almost always the case there is some light in every storm. The light in the commercial real estate storm was leased investments with quality tenants. This product rarely came to the market and when it did was purchased quickly - saving the few properties with significant location challenges. Why? People are always looking for secure investments and even in the depth of the downturn many investors believe that Sarasota real estate is a very sound investment. How did the values increase? Due to decreasing interest rates, the capitalization rates for quality investments dipped below 6% (meaning higher sales prices) compared to 7%-8.5% cap rates prior to the Great Recession.

Where Is The Market Today?

In a sound bite – today's Sarasota commercial real estate market is bouncing just up from the bottom. Clearly our market is stronger than 2-3 years ago and as reported several projects are planned. However, 7.5% unemployment, office vacancy over 16% and industrial vacancy over 20% are immediate undeniable realities and classify our market as weak.

Forecast

Forecasting the commercial real estate market is like trying to describe anything from a distance. The shorter the distance the clearer the vision and the more accurate the description. Predicting the future of the Sarasota real estate market beyond six months is difficult to say the least as unknown variables impact the market and specifics of the forecast become clouded. Historically, Sarasota commercial real estate has been a huge winner which makes my long term forecast very positive. However, based on today's product over-supply in some sectors I do not see significant immediate change in the commercial real estate market. There are two factors that will initiate change in our market. New projects constructed and operational always boost the market and improve neighborhood property values. Unfortunately, completion of new projects takes about 18 months or more. Unemployment must also change for our market to improve. Locally, the unemployment rate is higher than the national 7.6%. Looking out six months, expect the strong areas such as Main Street retail and the best market locations to continue to do well but the balance of the market will continue to struggle.

Downtown Hotels

Five new hotel projects have been announced for downtown and a sixth was proposed as a component of a State Street garage project. While the new projects are welcomed the question remains; can our market support this many new hotels? Site visibility will be a determining factor in securing financing and the sites with inferior visibility most likely will not be funded. In 1985 our market demanded one office building and five developers built it – déjà vu?

Harshman & Company Available Properties



41 N School Ave – Sale Pending
53,573 +/- sq ft (1.34 acres) land,
3 buildings totaling 16,681 sq ft,
zoned DTC.
\$1,550,000



599 Coconut Ave
31,388 +/- sq ft vacant land,
zoned DTE.
\$1,569,400



51 Wallace Ave
900 +/- sq ft office building on
6,250 +/- sq ft land, zoned DTC,
near courthouse.
\$489,000



1716 N Tamiami Trail
40,880 +/- sq ft vacant land,
Permits 35 units per acre,
zoned NT.
\$1,450,000



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4242 Gypsy Street
2.2 acres, with 5,216 +/- sq ft
office/warehouse, zoned CI
(Sarasota County).
\$595,000



936 42nd Street
1,100 +/- sq ft building on 6,305
+/- sq ft of land, Commercial
catering kitchen, zoned CG
(commercial/general).
\$329,000



**7504 Pennsylvania Ave –
Sale Pending**
2.62 acres land with 16,910 +/-
sq ft building, Manatee County,
zoned PDI/WR.
\$1,200,000



1620 Main Street, Unit 10
1,100 +/- sq ft office
condominium, zoned DTC.
For Sale \$275,000
For Lease \$950/month



889 N Washington Blvd
6,200 +/- sq ft building, 25
parking spaces, zoned DTE.
**\$14/sq ft gross with 3.5%
annual increase**



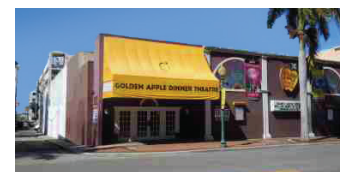
7100 S Beneva Rd
8,220 +/- sq ft building, may be
expanded by 2,800 sq ft, private parking
lot, zoned OPI (Sarasota County).
**\$18/sq ft NNN with
CPI annual increase**



1926 Hillview Street
1,700 +/- sq ft office/retail
storefront, shell space,
6 stacked parking spaces.
**\$20/sq ft, NNN with CPI
annual increase**



1599 Main Street
3,200 +/- sq ft office in multi-
tenant building, with parking.
\$17/sq ft, NNN



25 N Pineapple Ave
10,000 +/- sq ft building, for office/
retail/entertainment/restaurant, will
have new storefront, new a/c and
new roof after renovations.
**\$30/sq ft, NNN plus \$8/sq ft
estimated tenant expenses**

New Construction

It certainly is refreshing to be able to talk about imminent development projects after the long dry spell of the Great Recession. The hotel/apartments at Ringling and Palm may be the first downtown project to break ground in a long time. We anticipate 4 or 5 announced projects including the Jewel at Main St. & Palm Ave. and the Kolter hotel/condo project at US 41 and Gulfstream Ave. to quickly follow. Singularly, each project is a positive for downtown but collectively the new projects will help transform downtown

into its next phase of vitality, beauty and success. These projects will provide quality new residences for permanent and transient residents as well as providing jobs, customers, greater tax base and more energy. History tells me that not all the named projects will become reality but each one that does helps build our downtown.

Making the Best Real Estate Decisions

Our clients look to us to help them make the best real estate decisions.

They expect expert recommendations and accurate data to support the recommendations. Obtaining accurate data is a science. Interpreting all the data and presenting a cogent recommendation is the art. At Harshman & Company, Inc. we devote significant time and resources to market research, identifying trends and presenting the market in a concise visual presentation we like to call OH, WOW! You will be "wowed" by what we have to show you! Please contact us if you are interested in an up to the minute Sarasota commercial real estate market overview.



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MARKETUPDATE

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Sampling of Commercial Transactions

- **United Way Suncoast, Inc.** sold 36,750 +/- sq ft DTC land with 14,005 +/- sq ft building at 1445 2nd Street to Biter Building, LLC for \$2,800,000 on 6/18/13.
- **Rosalynne Holdings, LLC** purchased 6.5 acres of land located at Coconut Ave, Florida Ave and Blvd of the Arts from Iberia Bank for \$4,550,000 on 4/1/13.
- **Edmonia O. Davies TTEE** sold 23,464 +/- sq ft CG-zoned land with 1,600 +/- sq ft building at 2407 Bee Ridge Rd to Gecko's Hospitality Group, LLC for \$500,000 on 10/19/12.
- **Northeast and Audubon LLC** purchased 73,305 +/- sq ft DTC land at 1st Street, East Ave and Audubon Place from Quality Properties Asset Mgmt Co for \$750,000 on 3/22/12.
- **UB III (University) LLC** purchased the 108,447 sq ft building on 7.3 acres of land zoned ILW at 1800 University Parkway from NL Ventures VIII University LLC for \$5,196,900 on 6/18/13
- **Northridge Investment LLC** sold the 78,059 sq ft building on 12.44 acres of land zoned CSC at 5100 Clark Rd to Northridge Station LLC for \$11,600,000 on 8/30/12.
- **Sarasota County Public Hospital Board** purchased the 17,005 sq ft building on 17,217 sq ft of land zoned CN at 1888 Hillview Street from American Keystone Insurance Co for \$2,125,000 on 7/31/12.
- **Dutchman Hospitality Group Inc.** purchased 4 parcels with 3 buildings totaling 65,716 +/- sq ft on 8.25 acres of land zoned CG at Bahia Vista St from The Dutch Corp of Florida for \$5,194,500 on 4/24/12.