



Real Estate Market Update

May 2010

I have written and mailed the Real Estate Market Update since 1985. The Update's goal is to provide a concise snapshot of certain aspects of our commercial real estate market and to help you make the best real estate decisions. I hope you enjoy the newsletter in its new format as much as I enjoy its writing. All comments are welcome.

Jobs loss is ground zero.

Property values increase and decrease based on supply and demand. Presently the market is experiencing less demand driven by high unemployment (13%+ in Sarasota/Manatee) which translates to fewer employees to occupy buildings and fewer dollars circulating that support retailers, restaurants and other discretionary purchases. High unemployment causes vacancies to increase, high vacancy rates encourage competition for tenants, competition for tenants lower rent which drives down property values. Solution—create jobs and the chain reverses all the way back to higher property values. Economists view high unemployment as a “lagging” economic indicator but, to commercial real estate, jobs are the foundation of a healthy market.

Flex Space and “B” office rental rates:

Flex space and “B” office are second only to development land as hardest hit commercial sector in this “great recession.” The positive is that if your business requires flex space and “B” office you will be pleasantly surprised as rental rates are \$5-\$12 per square foot or 30%- 60% lower than two years ago. Not all properties are taking that hit, however, as the more desirable properties are still commanding \$10-\$16 per square foot.

Industry Profile Strengthens:

The real estate industry has been experiencing a much needed cleansing. Compared to last year, fewer people are making a living in real estate and by next year the numbers will be less. The surviving professionals will be the stronger qualified real estate professionals in all sectors—financial, construction, legal, development and sales. While this is a painful process for many the result is a stronger industry.

Are downtown property values returning to 1999?

Prior to 2000, downtown Sarasota high-rise land values ranged from \$20-\$30 per square foot depending on location and the “highest and best use” was office, retail and restaurant. Then the urban living tsunami hit Sarasota and most downtowns across the country. Almost overnight the “highest and best use” for downtown high-rise land became residential and values skyrocketed to well over \$100 per square foot. All sites with downtown zonings were mistakenly viewed as “residential condominium” sites and developers raced to address the perceived insatiable demand for urban living. The demand for new residential downtown has evaporated. Individual condominium transactions are occurring but not nearly at a pace or price that warrants new development. Without the residential demand what is the value of downtown land? Have downtown land values returned to pre-2000 prices of \$20-\$30 per square foot?

The Sky is Not Falling on Commercial Real Estate:

In the early 1990's the commercial real estate market was truly devastated. Thirteen of the sixteen major projects in downtown Sarasota, and many small properties were foreclosed by lenders or the RTC. Only three major downtown projects survived - office buildings then owned by Northern Trust, Sun Trust and Ron Spector. Driving much of the 1990 foreclosures were astronomical vacancy rates pushing 30%. Today downtown office vacancy has stabilized at a survivable 15%. Unlike the early 1990's when the market was flooded with vacant newly constructed major retail malls and high-rise office buildings; our market today has no new vacant retail major malls or high-rise office buildings. Foreclosures are a reality; some are recession casualties and some the result of poor business decisions. Clearly many planned and some constructed projects should not have moved forward, but the early 1990's were overall a much more challenging time for commercial real estate than today. Predicting the future is impossible but with history as a guide and reasonable decisions we will survive and prosper.

Where to invest in a down market:

If one believes in Sarasota commercial real estate you must recognize that low values today present buying opportunities. Keep in mind location, location and functionality. Not every property is a good investment, but if the property positively addresses those concerns then it is reasonable to believe that, as the economy rebounds, there will be demand for the property. The question is how long you have to wait...



Aerial View of Downtown Sarasota

Newsletter Spotlight - 1445 2nd St.



36,750 +/- sq ft land zoned DTC (Downtown Core)
14,005 +/- sq ft building For Sale @ \$3,100,000