

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

Fall, 2017

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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](mailto:service@harshmanrealestate.com). Please let us know, as well, if you would like to receive this newsletter in an electronic form.

## State of the Market

Despite how frothy many of Southwest Florida's market segments appear on the surface, overall a state of equilibrium exists for the most part as compared to a year ago. The region's office sector remains sluggish, despite some high-profile sales activity involving the Sarasota City Center, BMO Harris Bank Building, Northern Trust and other properties downtown. The industrial sector is equally anemic, even as area service-sector job creation has netted some positive absorption. But while development has been tepid and leasing somewhat stalled, there has been one aspect of the commercial real estate market that has remained strong; that is the amount of capital looking at real estate. This is a significant market component, as it drives up prices for quality investment properties and often results in a great deal of attention paid

to even marginal properties, assuming they are priced at or below replacement costs. Cash buyers continue to dominate buying groups, though they often seek "deals" based on their ability to close quickly and most of the quality properties sold are to cash buyers. Perhaps the biggest surprise to us downtown is that new residential projects continue to be announced. Even with more than 1,400 new rental units either in leasing mode or poised to come online in the coming months, the Richmond Group plans to embark on a more than 200-unit apartment project on the site of the Ringling Shopping Center. On the for-sale side, GreenPointe Communities, owner of the Sarasota Quay property, has recently announced plans to partner with Vue Sarasota Bay developer The Kolter Group to develop the latter's planned The Grande luxury condo project – not at the Ritz-Carlton Sarasota as originally devised, but next door on the 15-acre Quay site. The bottom line appears to be that big money does not see a weakening residential demand – even with all the product, both rental and for sale, scheduled to enter the market.

## Bury It

Hurricane Irma highlighted the benefit of having underground electric lines. In the wake of the storm, many area residents were without power for six days or longer, and had to endure 90-degree heat, excessive

humidity and the inconvenience of losing stored refrigerated or frozen food. Sarasotans scrambled to find alternate living space to get away from the relentless heat, all the while worrying about their dark, unattended homes.

Others attempted to tough out the extended power outage and sweated. If electric lines were buried, however, not only would tree limbs be unable to knock elevated lines out of commission during storms, but there would also be less need for unsightly concrete poles that interrupt walking, biking and the overall aesthetic. Such is the case now on Orange Avenue, from Main Street, where the newly installed, above-ground power lines on the west side of the road have a particularly industrial, uneasy and intense look. Submarines have most of their interworking exposed with the intended effect of intensifying the environment so sailors are always alert. Powerlines have the same intensifying effect, which is undesired in an urban environment. Removing the overhead power lines and burying them would both cleanup the area and evoke a less-congested feeling. Burying all the power lines in Sarasota, in a fashion similar to Lakewood Ranch to the north or Palmer Ranch to the south, would be a monumental task – but one well worth tackling.



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## By the Numbers

Casual observers may see all the construction downtown and reflexively assume that our market is increasing in office supply. The reality is that almost all the new construction is residential in nature, following a wave of hospitality projects that began two years ago and will add nearly 1,000 new rooms to the city's stock of lodging units. There is almost no new office being developed, save for a smattering amount that will be part of The Mark, a 12-story project downtown, and an office and retail building along State Street. The largest new office building developed in Sarasota in years, at 1936 Ringling Blvd., contains just 40,000 square feet. Why? It's simple: The demand for new office space is largely insignificant, while demand for residential units is considerable. Apartment rents in downtown's new projects are ranging or are projected to range from \$1.90 per square foot to \$3 per square foot per month. This equates to a modified gross annual lease rate of \$22.80 per square foot to \$36 per square

### 3938 S. Tamiami Trail, Sarasota



Zoned CGD in the City of Sarasota. Fantastic, fully renovated 1,500-square-foot professional office and showroom. Parking for seven cars on site. Vehicular traffic exceeds 56,000 per day – a true showcase! **\$495,000 (price reduced)**

foot. The numbers show that residential rents are generally much higher than those of comparable Class A office rates. More importantly, the residential demand among consumers who wish to live downtown is proving to be both strong and consistent.

## Down the Pike

Residential and more residential. As we have said many times before, the commercial market follows the residential market – because new residents demand and require retail spaces to shop, dine and bank in, and medical offices to fulfill their health care and wellness needs, just to name a few ancillary uses that new residential development attracts. Fitness clubs have become especially prevalent downtown as new residents have flocked

to Sarasota. Today, there is no shortage of CrossFit gyms, aerobic exercise and yoga studios, boxing clubs, dance classes and resistance-training facilities augmenting the more standard weight-lifting and cardio gyms of years gone by, with brand names like Fyzical and Orange Theory Fitness, to name just two. Their proliferation should not be surprising, since many of the new residents are aging but healthy baby boomers interested in maintaining their level of fitness and millennials whose lifestyles are centered on wellness and health. While relatively new to our marketplace, the advent of this new “lifestyle retail” is not unexpected, thanks to the demographic that Sarasota attracts. Also interesting is that these houses for health/fitness businesses are cropping up across the commercial real estate spectrum – in gritty, back street warehouses, upscale, Main Street office buildings and prime retail locations. We at Harshman & Co. believe this is a fantastic development for our marketplace, as it will add to Sarasota's “livability” while making the city a more desirable and sustainable place to live.

## Featured Properties

### Opportunity Awaits – 2080 Ringling Blvd, Sarasota



Nestled in downtown Sarasota's Legal District, near the Sarasota Police Department, the Clerk of the Circuit Court and the Lynn Silvertooth Judicial Center, the former headquarters of Global Financial represents a unique opportunity for a savvy investor or a law-related entity that desires to be near it all. This three-story building, at Ringling Boulevard and East Avenue, is professionally appointed and maintains an attractiveness suitable for a corporate office. The 10,587-square-foot building, located near ample parking, is available for **\$1.95 million**. Don't regret passing up this stellar opportunity.

### 5750 S. Tamiami Trail, Sarasota



You've driven past this high-visibility retail center on U.S. 41 – now you can lease a key corner of it! This nearly 1,300-square-foot site in Phillippi Plaza, which is zoned CG and comes with ample parking just north of Stickney Point Road, is available immediately for a five-year term. At **\$23 per square foot**, on a NNN basis, this property is almost certain to help any merchant rise above the crowd.



## Harshman & Company Available Properties



**1420 5th St., Sarasota**  
5,750 square feet, zoned DTE.  
\$575,000



**1245 and 1265 5th St., Sarasota**  
1245-5,250 square feet and 1265-10,500 square feet, zoned DTE, current use residential.  
**\$1,050,000 and \$2,100,000**



**Fruitville Road assemblage, Sarasota**  
2.11 acres (91,851 square feet), zoned DTE. Zoning allows for 52 units.  
**\$3,501,540**



**East Avenue and Audubon Place, Sarasota**  
1.68 acres (73,305 square feet), zoned DTC. Zoning allows for 84 units.  
**\$2,600,000 - SALE PENDING**



**1716 N. Tamiami Trail, Sarasota**  
Nearly 1 acre (40,880 square feet), zoned NT. Zoning allows for 35 units per acre.  
**\$1,226,400**



**2090 S. Tamiami Trail, Osprey**  
1.81 acres (78,863 square feet) of vacant land, zoned RMF-2.  
**\$1,440,000**



**100 and 180 Center Court, Venice**  
2.35 acres (102,539 square feet) of vacant land, zoned ILW.  
**\$1,230,468**



**7100 S. Beneva Road, Sarasota County**  
For Sale 8,220 square-foot building, partially leased Zoned OPI. **\$1,520,700**  
For Lease 3812 rentable square feet with private parking,



**\$13 per rentable square foot, NNN**  
**27 N. Pineapple Ave., Sarasota**  
2,250 square feet of retail space, adjacent to Sarasota Opera House, 18-foot-clear ceilings.  
**\$29 per square foot, NNN**



**8598 Potter Park Dr., Sarasota County**  
8,250 square feet, divisible, zoned OPI.  
**\$24 per square foot, modified gross**

## North Trail – Finally?

A pair of new residential projects to be built along North Tamiami Trail have recently been announced. The Strand, a 160-unit condominium development on Whitaker Bayou with a planned Starbucks on the ground floor, will be developed on the west side of U.S. 41 at 17th Street.

A second project, a 21-unit building on the east side of U.S. 41 between 14th and 15th Streets, also will contain a mix of residential and retail. Additionally, transportation officials are actively planning to construct a traffic roundabout along the Trail at

14th Street, which will enhance traffic/pedestrian circulation and give the area a fresh, new look. Just as significantly for the overall health of the area, The Reserve at 14th Street and U.S. 41 has opened and is drawing new people to the area, especially in the evenings. The combination book store, coffee shop and craft beer pub/wine bar also offers entertainment, a much-needed venue for the North Trail. Taken together, it is encouraging after years of economic floundering and only spotty development to see new life and money being invested in an area that possesses civic and cultural gems like the Ringling College of Art + Design.

## Downtown Retail

Downtown retailers, especially along Main Street, are holding their own, despite challenges presented by the nagging problem of panhandlers and other issues. What vacancies that do occur, for the most part, are filled relatively quickly – with the best buildings and locations commanding the highest level of attention. As in every market, quality product and locations command the highest rental rates. Downtown, storefront rental rates range from \$30 per square foot to \$55 per square foot, while less desirable locations and older structures are fetching rents in the mid-\$20 per square foot range.

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## Downtown Office Building Sales and What They Represent

In the past four years five downtown Class A office buildings have sold. Given that there are only thirteen buildings in this category that is significant turnover. The highest per square foot sale prices were achieved at Ringling Square and the PNC Building, at \$289 and \$288, respectively. Notably, both assets were purchased by the same investment group. Considerably lower prices per square foot occurred with the sales of Kane Plaza, at \$146.47, and Sarasota City Center, at \$147. Both Kane Plaza and City Center were purchased based on in-place income and income potential derived from significant,

seven-figure capital improvement programs. Although each of these transactions – and the motivations behind them – is different, each shares a common theme: Cash is abundant for Sarasota commercial real estate, especially when investors are able to purchase income-producing properties at below replacement cost, as was the case with Kane Plaza and City Center, with the potential upside of higher rent rolls in the future amid a largely stagnant inventory.

## Southside Shopping District

At first glance, there appears to be significant vacancy in the historically heavily tenanted Southside Shopping District, an area just

outside downtown bounded by Tamiami Trail, Hyde Park Street, Orange Avenue and Waldemere Street. But as is often the case with commercial real estate, first glances can be deceiving and often require greater scrutiny if one is to ascertain the truth. In the near future, a new art gallery is expected to take down the largest single vacancy in the district, with a 3,000-square-foot lease. Meanwhile, the remaining three or perhaps four storefronts along Hillview Street and Osprey Avenue that are presently unoccupied are relatively small or in more marginal locations. They also are not representative of the unique shopping district as a whole, which is anchored by long-time specialty grocer Morton's Market, Asian fusion restaurant Pacific Rim and Gecko's Bar and Grill.