

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

Winter, 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.

## Rosemary Overlay District = SUCCESS!!!

The Rosemary Residential Overlay District (RROD) was enacted by the Sarasota City Commission in 2014 to encourage additional development in the city's Rosemary's District, an area north of Fruitville Road that had failed to enjoy a similar economic resurgence to downtown's over the past decade. Since then, developers have embarked on at least a half-dozen projects that will add more than 1,000 apartments, retail, 100 condominiums and hotel rooms to the area bounded by Fruitville, 10th Street, Orange and Coconut avenues. The decision to allow triple density, up to 75 units per acre, compared to the rest of Rosemary District at 25 units per acre and downtown core at 50 units per acre, has helped usher tremendous success, by bringing new residents into an area to support and increase storefront and restaurant occupancy. Apartment projects like Urban Flats, CitySide and Elan Rosemary will almost certainly spark the renaissance that city leaders have long desired. But while dramatic and seemingly overnight, the

district's success also was easily predictable. Allowing additional density made the economics of new product much more viable. However, the district also is scheduled to sunset in February 2018, or whenever 1,775 new residential units have been permitted, whichever occurs first. Harshman & Co. hopes that the Rosemary initiative will serve as a model for rehabilitating other areas of the city that need new investment. Clearly, without the density bonus that the overlay district provided, the Rosemary area would not be experiencing such renewal.

## Down the Pike

Yet another hotel has been proposed for the downtown area, at Fruitville Road between Coconut and Central avenues. This 118-room property brings to 1,346 the total number of new keys planned or under construction in Sarasota's downtown. Without question, increasing the number and type of short-stay options helps Sarasota capitalize on worldwide interest in our area, and tourism officials have long known that many transient visitors eventually become residents, thereby boosting property values. Although there could be a short-term spike in vacancy rates when the Westin Hotel, aloft, Embassy Suites and others go head-to-head and compete against existing product, Sarasota overall will, long-term, benefit greatly from an increased number of visitors and through the allocation of additional marketing dollars by hotel operators. This month the former Sarasota Quay site at North Tamiami Trail and Fruitville Road obtained approvals from the City Commission. While there is no timeline for vertical construction at present – and more

than \$30 million in significant subterranean and surface preparation must be first undertaken – the 15-acre site is entitled for 175 hotel rooms, which will only add to the lodging fabric of the downtown area.



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## Development Cycles

In the mid-1980s conditions were such that Sarasota could absorb the development of a single high-rise office building. Encouraged by the tax code at the time and abundantly available financing, five developers built it. This same scene played out nationwide, increasing supply to unsustainable levels and ushered in the collapse of commercial real estate and of lenders not seen since the Great Depression of the 1930s and a crash that devastated commercial real estate. Two decades later, beginning in 2003 through 2007, another real estate boom took hold in the U.S. and especially in Southwest Florida. Unlike the upcycle of the 1980s, however, last decade's growth was focused almost exclusively on residential product, largely fueled again by undisciplined lending practices. The pain of the subsequent collapse is, or should be, all too fresh in our minds. The present cycle in Sarasota and throughout the region has already eclipsed previous booms, especially for downtown development. But real estate remains a cyclical business. Though equity and all-cash deals are prevalent today, investors must be prepared for Southwest Florida to cycle into a slowdown, crash or worse. Time will tell if, or more likely when, that will occur.

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## State of the Market

Investment money continues to eye Sarasota for quality long-term real estate investments, and our market checks many boxes for those seeking to develop new product or buy existing space. With the November elections behind us, the business community is cautiously optimistic that long-awaited reform of the tax code will occur, and that deregulation and tax decreases could be forthcoming. Locally, an anti-growth faction is blooming in Sarasota and as a result developments will likely receive greater scrutiny and therefore will be more expensive. A key indicator of market health is the office vacancy rate, which had dipped below 10%. Recently, it inched back up above 10%, an anomaly in an otherwise slow but steady absorption rate. Absent significant businesses leaving the area the office market vacancy is expected to decrease in the short term. Between 1998 and 2007, vacancy rates hovered around 4% to 5%, the result of

steady job growth and business expansions and a lack of significant new product without tenants in place. With the steady but slow decrease in office vacancy rates speculation has arisen that a new office building will be constructed somewhere downtown and driven by a single, large tenant. To date, however, those plans – if they exist – have yet to become public. It also remains to be seen whether any tenant, despite a shortage of large blocks of contiguous space downtown, would be willing to pay the mid-\$30-per-square-foot full service rental rates that new development would demand.

## The Anti-Growth Faction Is Alive and ... ?

Sarasota is not unfamiliar with anti-growth sentiments. During the economic boom of the 1980s, a group named GEO formed to try and stifle development in Sarasota County. Today, one of its founders remains an outspoken advocate of hampering growth. A decade ago, Save Our

Sarasota attempted to handcuff projects that were viewed as rampant and were contributing to traffic increases and a perceived erosion of the city's quality of life. Today we are witnessing the gelling of a new anti-growth group, STOP!. Unlike previous no-growth incarnations, however, the latest movement counts among its members city commissioners and Sarasota Planning Board members – two bodies that have considerable sway over what is allowed to be built, despite the existence of the early 2000s zoning code that was intended to inject “predictability” into the development process for builders and citizens alike. It remains too early to say whether the current slate of anti-growth proponents will succeed in impeding market forces. We contend that those citizens who might be upset at the abundance of development in Sarasota should focus their efforts on tweaking the city's zoning code through the democratic process for the benefit of all residents and visitors, rather than just railing at perceived increases in congestion and the number of construction cranes dotting the skyline.

## Featured Properties

### High-end Downtown Office Building, Sarasota

Supremely located near the Sarasota County Judicial Center, the Sarasota County Sheriff's Office, Payne Park, City of Sarasota Police Department headquarters, several law firms and restaurants, this three-story office building is located at the intersection of East Avenue and Ringling Boulevard. The former headquarters of financial services firm Global Financial, the 10,587 square feet of office space is well appointed and modern. Zoned Downtown Core and on nearly 7,500 square feet of land, this property is aggressively priced at \$1.95 million.



### State-of-the-art Professional Office Building in Palmer Ranch, Sarasota County

This 8,250-square-foot building at 8598 Potter Park Drive offers ample, on-site and non-designated parking. Available beginning in the Fall of 2017 with generous tenant build-out allowances and the ability to subdivide the space to suit tenants' needs. Five-year lease term minimum with annual rental increases of 3 percent and security deposit equal to one month's rent. Zoned OPI. Priced at \$24 per square foot with tenant paying for electricity, janitorial services and light bulb replacement.



### Extraordinary Suburban Office Building

This 7100 S. Beneva Road building has it all – excellent visibility, ample surface parking, a flexible floor plan and nearby amenities – all in a single-story property! Why waste time with steps or elevators? Everything a business needs to be efficient and productive in a conveniently located suburban location. This 3,800-square-foot space is being offered for \$13.00 per rentable square foot, on a Triple Net basis. Zoned OPB.



## Harshman & Company Available Properties



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



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



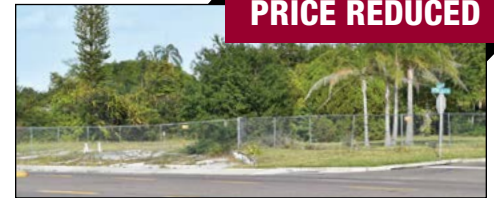
**500-900 3rd Ave. W, Bradenton**  
1.18 acres (51,253 square feet) of land, zoned T6 Urban Core.  
**Price: \$870,000**



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



**East Avenue and Audubon Place, Sarasota**  
1.68 acres (73,305 square feet) of land, zoned DTC. Zoning allows 84 units.  
**Price: \$2,995,000**



**1716 N. Tamiami Trail, Sarasota**  
Roughly 1 acre (40,880 square feet) of land, zoned NT. Zoning allows 35 units per acre.  
**Price: \$1,226,400**



**1401 S. Tamiami Trail, Osprey**  
1.46 acres (63,597 square feet) of vacant land, zoned CG.  
**Price: \$699,457**



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



**12750 S. Tamiami Trail, North Port**  
60-plus acres of vacant land, zoned PCD. Zoning allows 15 units per acre.  
**Price: \$4,250,000**



**North Port Park of Commerce, North Port**  
7 lots ranging from 1.25 acres to 2.15 acres, zoned PCD.  
**Price: \$260,000 to \$675,000 per lot**



**25 N. Pineapple Ave., Sarasota**  
2,250 square feet of retail space  
**Price: \$29 per square foot, NNN**  
(Tenant expenses estimated at \$5.00-\$5.50 per square foot)



**6561 Palmer Park Circle, Sarasota County**  
Newly constructed 1,500-square-foot office zoned ILW.  
**Price: \$18 per square foot**

## A Pair of Hot Commercial Real Estate Products

The two sectors that have attracted the most buyers during this real estate cycle are apartments and self-storage facilities. The pair often go hand-in-hand and enjoy a symbiotic relationship. Apartments have become coveted as a result of demographic trends and a willingness to forego home ownership, especially among Millennials aged 25 to 37 and empty-nester baby boomers born between 1946 and 1964. Self-storage facilities have grown in popularity among

developers and investors alike in large part because Americans often accumulate more possessions than they can store – especially in apartments. Competing buyers for these product types are driving up prices and shortening due diligence periods. While Harshman & Co. echoes economists in believing the long-term outlook for both sectors is strong, we also believe that the key to their success stems from efficient management and quality locations. The difference between these products and single-tenant investments – such as a stand-alone Starbucks coffee shop or a CVS Pharmacy – is that management plays

a more important role. Both multifamily complexes and self-storage projects are businesses with tremendous upsides but they are also vulnerable to the negative impacts of market downturns as well. For instance, while macro-economic forces may push some people into apartments because they are unable to save the necessary money for a down payment or qualify for a mortgage, those same forces could lower occupancy rates for self-storage product, as consumers search for ways to trim costs in times of economic distress.

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### Recent Notable Commercial Transactions

- **Sagacity Media Inc., d.b.a Sarasota Magazine**, leased the 2nd floor of a soon-to-be constructed mixed-use building at 1500 State St. in downtown Sarasota, from **State Street Properties LLC**. 9/23/16
- **The Estate of Anders Ebbeson** sold a 16,838-square-foot warehouse and office building on 1.80 acres at 1540 Northgate Blvd. to **MCM Commissary, LLC** for \$1,600,000. 9/23/16
- **SOF-VIII-FT Park of Commerce North Port LLC** sold a 13.2-acre tract of industrial zoned land at 2401 Commerce Pkwy, in North Port, to **Anvil Land and Properties, Inc.** for \$625,000. 9/12/16
- **Cadence Bank N.A.** sold a 1.46-acre tract of land zoned CG at 1401 S. Tamiami Trail, in Osprey, to **TNJ Business Ventures LLC** for \$159,000. 6/29/16
- **Sarasota LLC** sold a 2,772-square-foot building on 17,224 square feet of land zoned OPB at 3150 S. Tamiami Trail, in Sarasota, to **Professional Resource Development Inc.**, an affiliate of Heartland Dental Inc., for \$800,000. 6/14/16

### Sarasota Investment Real Estate Remains A Much Desired Commodity

Properties with credit tenants and longer-term lease commitments have been trading at capitalization rates ranging between 4.5% and 6%, depending on location. Typically, these deals are with national restaurants, pharmacies and service oriented stores. These properties are often purchased by private investors, but this cycle has seen the advent of large institutional investors eyeing our marketplace as never before and often looking for the higher dollar investments. The recent purchase of the 907,000-square-foot Meridian Distribution Center, at Clark and McIntosh roads, for \$52,500,000 by Agellan Commercial REIT of Canada serves as a prime example of the willingness of institutional capital to bypass more urban markets in favor of Sarasota, and demonstrates the confidence these investors have in our market.