

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, 2018

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

All of the many market indicators that we analyze and consider on a regular basis at Harshman & Co. point to a healthy commercial real estate market in Sarasota at present. Thankfully, the market today is much more disciplined and lacks the over-exuberance of the years leading up to the Great Recession that began in 2008. Sound buying and lending fundamentals appear to be a hallmark of 2018. Sub-prime loans and no-money-down, no-documentation financing has vanished. Our market has experienced steady value increases over the past seven years and now, infused with new product, we are experiencing some price stabilization of most residential products. This is indicative of a disciplined market as values stabilize and increase based on supply and demand. This is to be

expected at this point in a seven years-long growth cycle. We anticipate that this winter buying season will generate considerable activity across the board, especially in downtown condominiums, despite recent hikes in interest rates.

## Impact of SMH Purchase of the Former Herald-Tribune Building on Main Street

The iconoclastic downtown Sarasota building constructed in 2006 at 1743 Main St. for the then-New York Times Co.-owned Sarasota Herald-Tribune is poised to have a new owner as early as December. After years of sparse occupancy and determined marketing efforts, it appears that Sarasota Memorial Hospital will purchase the three-story building designed by Miami's Arquitectonica with the intention of housing 300+ employees there. To say this will be a huge positive for downtown is an understatement. Once occupied, as is projected in May 2019, the employees will enliven this sluggish part of downtown and the positive reverberations will be felt throughout. I caution that no real estate deal is done until closed, but all indicators are positive at this point. The SMH purchase price of about \$160 per square foot is significantly less than several recent

downtown office building sales, and represents about 2/3 of the amount of the building's replacement cost – a good deal for the hospital. Removing this building from the "available" list of downtown Class A office space also lowers the amount of

total space on the market from 15.5% to 11.6% - nearing respectability. But the pending sale also provides a valuable lesson about Sarasota's office market. Every major user of downtown office space looked at this building, including several notable law firms, but no one bit. This single user building languished on the market at \$250 per square foot for about two years. The reality of the Sarasota office market is this: Ours is a market primarily made up of smaller users and many office landlords have struggled even in these good economic times. The first viable buyer to come along, SMH, appears to be getting a great deal and all the surrounding businesses should also benefit from the added vitality that new workers to downtown will bring. The only negative I see is removing a \$175,000 per annum tax-paying property from the tax rolls, though we contend that will be more than made up for by increased consumer spending and other ripple effects.



John B. Harshman, Broker  
[jbh@harshmanrealestate.com](mailto:jbh@harshmanrealestate.com)

Request our newsletter by emailing [service@harshmanrealestate.com](mailto:service@harshmanrealestate.com) or by visiting our website.

View our listings on our website: [www.harshmanrealestate.com](http://www.harshmanrealestate.com) or on the following Multiple Listing Services: [www.mfcre.com](http://www.mfcre.com) or [www.loopnet.com](http://www.loopnet.com)

## Commercial Real Estate Market Correction is Premature

File this under “Too much of a good thing?” The greater Sarasota commercial real estate market has been ascending across multiple sectors for six-plus years now, which has prompted some pundits to look for cracks in the market and question whether a downturn is imminent. Many of these prognostications seem to be based solely on the length of the growth cycle. By their logic, it’s “time” the market corrected. Historically speaking, it is easy to point to cycles and say we are ready for the next shift. However, I learned early in my real estate career that events shift cycles and not the passage of time. Look to population growth and interest rate, and tax law changes to name three that usher recessions and appreciation cycles alike. While the injuries of the Great Recession a decade ago and the subsequent “buying opportunities” that followed remain fresh memories

there seems a macabre anticipation of a correction – perhaps out of a desire to take advantage of perceived “bargains.” Without question, a market correction will occur as real estate markets are cyclical, but when a correction will take place and how profoundly it affects the market is less easily answered. Over my 35-plus year career, the one factor that has presaged every economic recession I have witnessed has been abundant access to unsecured debt and other available funding sources – and that is not present today. I can see six to nine months down the road and I see no correction in the Sarasota commercial real estate market; unless some unforeseen national or international crisis pushes it to the fore.

## Why the Sarasota-Area Commercial Real Estate Market Isn’t at Its Apex

When forecasting the market’s outlook, I consider indicators rather than intuition. From my vantage point, I see more and more baby boomers retiring with cash who are looking to relocate to Florida, low unemployment, relatively low interest rates, high levels of consumer confidence, lender and buyer discipline, and lots of cash in the marketplace. These positive market indicators suggest real estate values will continue to rise, albeit at perhaps a more disciplined pace than of the past three years. Commercial real estate has generally recaptured the values lost during the Great Recession, and there has been a dramatic increase in valuations in most

sectors over the past eight years, especially in multi-family, hospitality and industrial properties. My forecast for the foreseeable future is for continued measured value increases commensurate with steady demand increases in the various market segments.

## Featured Properties

### 544 S Washington Blvd., Sarasota



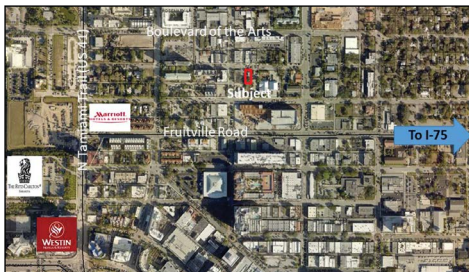
An ideal location for either a bank branch, a restaurant or offices thanks to its highly visible location on U.S. 301 in Sarasota near Oak Street and the Laurel Park neighborhood, this 6,300-square-foot building is in great condition and offers spectacular signage. Zoned Downtown Edge, it has been used as a bank branch since it was delivered, which explains its abundance of parking (31 designated spaces and one designated space for handicapped drivers). This building, which will become available on Dec. 1 of this year for a term of three years, is likely to lease up fast. Financial institutions take note: This property contains two drive-through bank deposit lanes and a vault on site. Rent this space today for **\$25 per square foot** on a triple net basis – \$13,125 monthly base rent with 3 percent annual increases and one month base rent provided as a security deposit – before your competition does.

### 4391 Independence Ct., Sarasota



This 4,950-square-foot building in the Northgate section of Sarasota County offers a wide variety of benefits, from its deed restricted covenants to an ILW-zoned lot that is nearly one half acre! Approximately half of the building is air conditioned for comfort and productivity and its 12-foot clear ceiling height provides tremendous flexibility for users. Its pair of 10-foot by 10-foot, grade-level delivery doors and 12-foot by 10-foot ventilation door also will appeal to end users, as does the three-phase electric system in place. Don’t delay; this property is sure to go quickly. **\$519,750**

### 1420 5th St., Sarasota



Measuring just over one-eighth of an acre, at 5,750 square feet, this lot zoned Downtown Edge in the city’s red-hot and growing Rosemary District would be ideal for the development of residential duplexes. With a density bonus granted under the city’s Rosemary Residential Overlay District — a designation that will sunset on December 31, 2018 — this lot could be improved with up to nine residential units. Act now, as this parcel is attracting widespread attention! **\$575,000**



## Industrial Sleeper

Often overshadowed by the energy displayed by the residential market in Sarasota and throughout Southwest Florida, the region's industrial properties have slowly and quietly been gaining in user and investor interest and in value. Although demand for industrial space has largely remained constant in Sarasota, sale prices have inched upward. The days of quality industrial buildings coming to market at prices of \$60 to \$70 per square foot are long gone, supplanted by triple-digit prices of nearly \$100 per square foot. Even at that amount, however, one must consider that that is less than replacement costs, and must be viewed as such. One has only to look at the product that Harrod Properties is delivering in Lakewood Ranch, or to Benderson Development's project along Interstate 75 in Ellenton to see that demand is robust. From a historical perspective, the rebound of industrial properties is significant, as well: The sector was one of the first to be negatively impacted by the Great Recession and it was also in this market the last to recover. As such, its recovery is a very good indicator of the overall strength of our real estate market, especially because such properties often house important services or serve as an integral part of local supply chains.

## By the Numbers or Looking for the Next Big Wave

The driving force for the success of our downtown is our residential base, which continues to experience phenomenal growth. This is the key data point forecasting success in all segments of our commercial real estate market. Simply – residential produces buyers and demands for goods and services supporting a plethora of businesses. The numbers – 253 new condominium and townhouse units have been completed in our downtown plus 879 rental apartment units. 1,100-plus residential units in a fairly tight geographic area screams demand for other products. Looking ahead 12 months and 973 condo units and 263 hotel rooms will be delivered within the same downtown geographic area. Generally, the condos are selling very well and the apartments are leasing. I forecast even stronger numbers for the 2018-19 tourist season as more people populate our thriving downtown.

## Harshman & Company Available Properties



**2080 Ringling Blvd., Sarasota**  
7,493 square feet of land improved with a 10,587 square-foot, three-story office building, Zoned DTC. **Price: \$1,950,000**



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



**238 S. Links Ave., Sarasota**  
Downtown office location, 1,350 square feet, zoned DTE. **\$3,150 per month, modified gross**



**5750 S. Tamiami Trail, Sarasota**  
Prime retail location, 1,387 square feet. **\$21.50 per square foot, NNN**



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



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



**1599 Main St., Sarasota**  
Former physical therapy center, 3,255 square feet. **\$26 per rentable square foot, Triple Net basis (NNN)**



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

## Down the Pike

Occupancy rates for new residential product being delivered in and around Sarasota, both for-sale condominiums and rental apartments, will be closely watched in the coming months. Sales generally appear to be strong, even for luxury projects such as The Kolter Group's 73-unit Residences at the Ritz-Carlton, where prices are ranging from \$2 million to a reported \$8 million per unit, but some projects are lagging – a comment perhaps more on the individual project's deficiencies

rather than that of the market as a whole. Moreover, many condo sales continue to occur through all-cash transactions, indicating a lack of reliance on leverage by buyers. That speaks to the overall health of the market, as does the absence of buyers involved in multiple purchases of units during the pre-construction phase of a development, which in part foreshadowed the market's last crash. We at Harshman & Co. expect to see some free rent and other concessions offered by developers over the next six months in the downtown rental market, especially,

as freshly completed multi-family rentals like CitySide, The Desota, Arcos and Elan Rosemary all compete for what may be a finite pool of tenants willing, or able, to pay rental rates on a per square foot basis that are mostly unprecedented for Sarasota. Our prediction is the significant number of deliveries will stymie any rental rate increases over the short term and create an ephemeral "tenants' market." However, we believe that the heightened supply of product will be a limited phenomenon, and any oversupply will be largely absorbed in less than two years.



**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](http://www.harshmanrealestate.com)

### Recent Notable Commercial Transactions

- **Gulf Shore Media LLC** leased 6,160 square feet of office space at 1258 Palm Ave. from **Bay Plaza Investments FL LLC** for a period of 10 years commencing on 8/1/19.
- **Winifred A. Hobson Trust, Michael Hobson, Trustee** leased the 1,100-square-foot retail storefront at 1310 Main St. to Breaking Wave Coffee LLC on 10/11/18.
- **Glennlauren LLC** sold an 8,220-square-foot office building at 7100 S. Beneva Road in Sarasota County to **7100 Beneva LLC** for \$1,345,000 on 5/30/18.
- **Cocoanut Arts Southwest LLC** purchased a pair of multi-family properties, at 1245 and 1265 5th St. in Sarasota, from **Florida Studio Theatre Inc.** for \$1,988,437 on 5/7/18.
- **2900 Tamiami LLC** bought a 4,176-square-foot building, at 2900 S. Tamiami Trail in Sarasota County, from **Lee-2900 Trust** for \$1,150,000 on 4/17/18.

### Even in the Boom Times Some Projects Are Delayed

The Cambria and Hampton Inn hotels planned for Fruitville Road, west of Central Avenue, seem to have encountered development obstacles causing delays. One reason for project delays is ever-increasing construction costs. Materials and labor costs have increased dramatically over the past year and are wreaking havoc with budgets.