

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, 2019

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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. Please let us know, as well, if you would like to receive this newsletter in an electronic form.

2018 Is History – What Did We Learn and What Did We Experience?

Throughout 2018, Southwest Florida's commercial real estate market was both strong and disciplined, and the region experienced historically high employment. Confidence remained high across various sectors. Cash buyers continued to be a heavy influence on the market, particularly when short contingency purchases gave them a leg up in competing for key properties. Construction costs also continued to climb by as much as 20%, impacting many facets of the real estate market. Lending institutions, meanwhile, increased their activity, though with a careful and disciplined approach that

stood in stark contrast to that of slightly more than a decade ago. Newly developed multi-family rentals and for sale properties dominated the market despite a recurring question – will all this new product be absorbed in a timely fashion and at pro forma prices? We at Harshman & Co. contend the answer to those inquiries will come to light before the end of 2019. In other sectors of primary interest in the Sarasota market – industrial and office – office leasing and sales showed a strong rebound in 2018, pushing vacancies to approximately 11% and sale prices near \$300 per square foot. Industrial property sales and leasing continued at an acceptable clip, albeit at a slower pace than in recent years.

2019 – The Year Ahead

The pace of new development has been at a frenzy the past five years, and with numerous projects approved, financed and in the pipeline, any slowdown should be almost imperceptible over the next 12 months. Still, the rising costs of construction and commodity prices, combined with the time needed to absorb new product and the impact of rising interest rates, will likely soften at least some developer enthusiasm going forward. The various barometers

of our marketplace – occupancy rates in the office retail, industrial and apartment markets – will likely strengthen if fundamentals such as in-migration and macro-economic factors remain solid. Such conditions may even spur future building in the relative near term. Sarasota will continue to change dramatically as new residential occupants come and leave their collective imprint on the market. Look for the service industry in particular to thrive across a wide spectrum, from banking to wealth management and healthcare to hospitality. We expect unemployment rates to remain well below five percent, which will heighten the pressure for wage increases. My prognostication is that barring a national catastrophe, 2019 will be another positive year in our real estate market. I do not anticipate a major correction will occur, simply because too many factors continue to be positive. Naturally, some segments of the market will do better than others, in part because we have reached some top limits in pricing and buyers are simply saying no to unrealistic expectations. That, too, however, is a positive, as it adds another level of discipline.



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**Rosemary Overlay Sunsets
After Successful Run**

The tremendously successful Rosemary Residential Overlay District sunset at the end of 2018. And while there is scheduled to be some extension of a revised RR0D, it will come with completely different terms and conditions. What made the RR0D so successful was its simplicity and the clear unencumbered incentives it provided: Three times the entitled density without any additional requirements that would often derail similarly proposed projects. This incentive opened the door for the type of development Rosemary District and many other areas of our City craved. Properties were developed under the RR0D that otherwise would still be vacant or dilapidated properties. The beauty to the taxpayer is that all of this cost the City virtually nothing. In turn the community received tremendous immediate and long-term benefits. Life was infused into the Rosemary District through four major

apartment projects and multiple condominium projects, with some supporting commercial space. Taken together, the development generated vitality and significant tax dollars. The valuable lessons of the simplicity and success of the RR0D are obvious and we at Harshman & Co. hope City leaders will implement similar initiatives elsewhere in Sarasota in areas that are also in need of redevelopment and rebirth.

Downtown Retail

Downtown Sarasota today has a plethora of wonderful and exciting places to dine and relax. Our theatre, restaurant and arts venues are top notch and compare favorably to cities many times Sarasota's size and population. What seems to be lacking, however, is a

diversity of retail offerings. While downtown is blessed with several long-term, quality merchants and additional retail is poised to enter the market, we would certainly benefit if there were more stores for consumers and visitors alike. The good news, though, is that with the addition of new residents occupying recently delivered condominiums and apartments, new retail is almost certain to follow the demographic change and influx, a development that we eagerly await in the months ahead. Looking for a prime indicator that downtown is an excellent location for retail? Look no further than rental rates. Many storefronts have been updated and refurbished and tenants in those properties pay well over \$30 per square foot on a triple net basis, in which the tenant covers expenses such as taxes, insurance or utilities. In some cases downtown retail rental rates top \$50 per square foot. If retail pays 4%-8% of gross revenue for space, the gross sales exceed \$1,000 per square foot. (Please note that we are defining retail space to include traditional apparel stores as well as retail banking operations and financial services.)

Cap Rates and Interest Rates

As interest rates inch upward, so too will yields as reflected in Capitalization Rates (cap rates) for investment properties. Remember: The lower the cap rate, the higher the price. Despite Federal Reserve moves on benchmark interest rates, though, the best real estate locations will hold their value (and thus continue to sell for the lowest cap rates) while marginal properties that sell based on income will sell for lower prices. If you have questions about the inverse relationship between prices and cap rates, or desire advice on purchasing real estate relative to its yield, please call us at Harshman & Co. We'd be happy to assist you.

**Why Our Market Will Not See a
Class "A", Speculative Office Building**

The days of single-purpose, speculative office buildings being constructed in downtown Sarasota are, at least for the foreseeable future, history. While some mixed-use developments will continue to contain a small office component – think The Kolter Group's The Mark building, which will contain 11,000 square feet of office space along with 157 condos and retail – pure office buildings, even with ground-level retail, is highly unlikely in our current environment. Why? Simply put, land costs in Sarasota, coupled with construction expenses for labor and commodities, are too high to justify office development at current rental rates. At roughly \$30 per square foot, landlords cannot recover development costs, let alone make any profit. Consider this, too: During the golden years of Sarasota office development, 1983 to 1987, the cost to construct a multi-story office building was approximately \$100 per square foot. Today, that same building would cost roughly \$350 per square foot to deliver. At that cost, office rental rates would need to be in the \$40 per square foot range, excluding operating expenses of \$12 per square foot. Today's office rental rates, by comparison, are about \$30 per square foot on a gross rental basis. That means that office rental rates would need to increase by a whopping 70% for a new, "pure" office project to cash flow and proceed. We at Harshman & Co. don't foresee such a scenario anytime soon.

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 became available at the beginning of December last 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



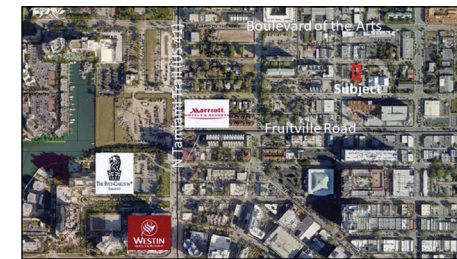
This 4,950-square-foot building in the Northgate section of Sarasota County offers a wide variety of benefits, from its deed-restricted covenants to an ILW-zoned lot that is nearly one half acre! Approximately half of the building is air conditioned for comfort and productivity and its 12-foot clear 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. **\$495,000**

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.

Harshman & Company Available Properties



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



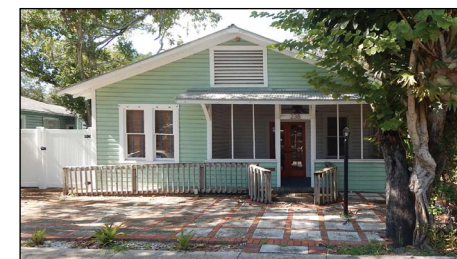
Fruitville Road assemblage, Sarasota
2.11 acres (91,851 square feet), zoned DTE.
Zoning allows for 52 residential units.
\$3,501,540 – SALE PENDING



1716 N. Tamiami Trail, Sarasota
40,880 square feet, zoned NT, located in "Opportunity Zone". Zoning allows for 35 residential units per acre. **\$1,226,400**



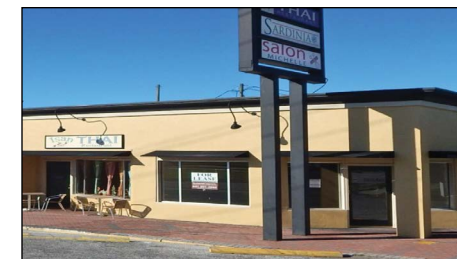
100 and 180 Center Court, Venice
2.35 acres (102,539 square feet) vacant land, zoned ILW.
\$1,230,468



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



1567 Main St., Sarasota
Office, bank or retail location, 5,200 square feet, zoned DTC.
\$27 per RSF NNN



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

A Glimpse Of History – Sarasota Market In 1989

Thirty years ago the greater Sarasota market was terribly different. Sarasota slid into the national recession of the early 1990s a year early, on the back of a proposed “No Growth” initiative that would have placed a moratorium on commercial building permits in the county. While the initiative was defeated 3-1 at the polls, the market nonetheless fell into a malaise, and the sale of commercial properties, particularly vacant land, slowed to a trickle fueled by uncertainty. Nationally, the

country was just beginning to come to grips with the Savings & Loan crisis that, in turn, led to the creation of the federal Resolution Trust Corp. (RTC), which seized insolvent thrifts and banks with significant real estate loan exposure. Downtown Sarasota suffered monumentally. A total of 13 of 16 major commercial projects downtown were foreclosed upon and ultimately became RTC properties, which ushered in a tremendous buying opportunity for those with the guts and cash. Downtown office vacancy stood at 30%, Main Street had many vacancies with rental rates generally in the \$7-\$10 per square foot range, roughly one-third of the rate today.

Downtown core land, meanwhile, sold for less than \$20 per square foot – if it sold at all. The supply of all product types soared, with no clear path to future absorption. The dark days lasted until about 1994. Even so, it was also a time for beginnings. Armed with the confidence, brashness and perhaps the obliviousness of youth, I started Harshman & Co. in December 1989. By putting one foot in front of the other and by keeping expenses down, some businesses, including mine, found a way not only to survive the economic tumult but flourish in it. The recovery was slow and painful, but it taught me valuable business and real estate lessons that I carry with me to this day.

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Recent Notable Commercial Transactions

- **Your Fitness Instructor LLC** leased 3,255 square feet at 1599 Main St. from **Monday Morning Corp.** commencing on 11/29/18.
- **Gulf Shore Media LLC** leased 6,160 square feet of office space at 1258 Palm Ave. from **Bay Plaza Investments FL LLC** for 10 years commencing on 8/1/19.
- **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.
- **665 S. Orange Avenue LLC** purchased a 4,615-square-foot building at 665 S. Orange Ave. from **Sarasota Outdoor Properties LLC** for \$1,260,000 on 10/24/18.
- **Winifred A. Hobson Trust, Michael Hobson, Trustee** leased a 1,100-square-foot sq ft retail storefront at 1310 Main St. to **Breaking Wave Coffee LLC** commencing on 10/11/18.
- **Cocconut 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.