

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

2nd Quarter, 2020

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State of the Market

The Greater Sarasota commercial real estate market ends the first half of this year in a holding pattern, the result of the coronavirus. Both 2019 and 2020 were historic years in terms of activity, as businesses expanded and capital looked for quality, long-term investments. All that exploration largely stopped in mid-March, though, with quarantines brought about by the virus pandemic. Fortunately, many properties that were under contract prior to COVID-19 closed as scheduled, but very few new contracts were subsequently inked. The leasing market was hit even harder than the investment side of the business, as businesses stopped thinking about leasing and tenants struggled with a drop in revenue and anxiety over what the future holds. As we move out of the catastrophe, we at Harshman & Co. believe business will pick up and start moving again. The fundamentals that have made Sarasota such an excellent commercial real estate investment market have not changed and those same fundamentals will springboard our market into an even stronger future.

1031 Exchange Purchases – Be Careful

Multiple times over the years purchasers have contacted me with a “tax problem.” They have sold a commercial property and wish to defer the taxes on the capital gains via a 1031 Exchange. First, I advise that they have on their team a professional tax advisor who is fully versed in the IRS requirements regarding 1031 Exchanges. Typically, after hearing the property types that interest them, their experience and management plans, we discuss the benefit of paying the capital gain tax rather than succumbing to pressure to avoid the tax and purchase an exchange property that is a poor choice. Why? The pressure to purchase an exchange property, particularly when one is selling a fully depreciated asset, is heavy. IRS rules require exchange properties be identified within 45-days of the sale and closed within 180-days. The time is short, and in such cases, buyers often feel rushed or pressured. When that occurs, buyers may lose sight of basic but critical buying criteria – location, quality of tenants and length of leases. Remember, “location” is paramount in real estate. While one may pay a higher price for a 1031 Exchange property, do not compromise and purchase an inferior location. Simply stated, if or when vacancies occur, poor locations are difficult to fill and the resulting loss of income may quickly deplete any savings achieved by deferring the tax.

Down The Pike

Over the next several months, look for renovations of major downtown properties that have recently changed owners. The Kress Building, Wilson Building, Sarasota City Center and the Coastal Behavioral Building – the property that will likely experience the most dramatic physical and use change – all are in line for capital improvements. At Coastal Behavioral, on State Street, an experienced and well-funded restaurateur plans a major upgrade following the building's purchase. This will be a tremendous boost for the entire downtown core, which will benefit from this revitalization and repurposing of a historic building. Condominiums, too, remain vibrant, as The Mark, The Grande and The Blvd all experienced record sell outs of their combined upscale units, totaling more than 200 in all. Main Plaza has been the silent elephant, and now demolition and construction of 400 apartments are planned; East Main is anxiously awaiting the infusion of life the apartments will provide.



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Gateway 2000

In 1990, the head of New College Foundation (General Roland Heiser) and the then-president of Ringling College (Dr. Arland Christ-Janer) met and discussed their frustration with the unrealized potential of North Tamiami Trail as well as the street crime that hindered many a development idea. Thus started a 10-year initiative to kick start the redevelopment of the North Trail, from 10th Street to University Parkway. The effort was called “Gateway 2000” and the Herculean task began just as the region and the nation were slipping into the most severe economic recession since the Great Depression of the 1920s. The two leaders stuck with the effort and accomplished a great deal despite uncooperative zoning, suspicious neighborhood groups, negative street activity and

a depressing economy. Two decades later, both of these tremendous community leaders have passed away, but their efforts are now reaping tangible rewards in the form of new residences, a grocery store, retail establishments, coffee shops and restaurants – all of which have opened on the North Trail in recent years, with more on the way. Most notably, we at Harshman & Co. await the pending redevelopment of the North Trail Plaza in the aftermath of Ringling College of Art + Design’s purchase in January 2019 for \$4,950,000.

All Eyes Are On Sarasota

The DeSota Apartments, Sarasota City Center office building, Main Plaza office and

retail complex, Elan Rosemary apartments, the Whole Foods Market Centre and the retail component of the originally named Pineapple Square project downtown were all purchased in the past two years by out-of-the-area commercial real estate investors. (The purchaser of Pineapple Square owns local real estate but is based in Toronto) The attention from “out of the area” investors is a strong positive for our market. While we expect new and well-located apartment properties to garner attention from real estate investment trusts and other major investment groups eager to boost their portfolios, the non-residential sales are especially significant. They tell us that Sarasota represents a quality market in which to invest. This is great news for a market that has at times struggled with its tertiary status.

Featured Properties

1st Street/East Avenue/Audubon Place, Sarasota



This 73,305-square-foot site represents a rare opportunity in downtown Sarasota for development of a multi-family complex, hotel or office building. Zoned DTC, which permits 10 stories of development and 50 units per acre – 84 units for this location – this site is in the heart of the east Main Street downtown core. Home to government and professional offices and multiple residential projects that are either planned or under construction, this area is fast becoming a thriving mixed-use neighborhood and Sarasota’s next hot place to live, work and play.

Site: 1.68 acres of land
Price: \$4,200,000

27 & 29 N. Pineapple Avenue, Sarasota



The former Morrison Cafeteria and Golden Apple Dinner Theatre building, in the heart of Sarasota’s flourishing downtown, is today a fully renovated space embarking on its next act. Uniquely located near the historic Sarasota Opera House, Five Points Park and several quality restaurants, the building represents an ideal location for either a retail or office tenant, with nearby parking in a municipal garage. **27 N. Pineapple** contains 2,250 square feet for lease at **\$26 per square foot, on a triple-net basis**. **29 N. Pineapple** contains 6,500 square feet, with storage area and mezzanine space, for lease at **\$24 per square foot, on a triple-net basis**.

100 and 180 Center Court, Venice



Roughly 2.35 acres of vacant land in fast-growing Venice, in Sarasota County, this property is just west of the highly trafficked intersection of U.S. 41 (bypass) and Center Road. It also holds ILW zoning, a very flexible classification that permits light industrial and warehousing operations, offices and even fast-food restaurants with drive-thru service! Come see why this property, with an Average Annual Daily Traffic count of 9,500, isn’t your typical “industrial” space. Available for **\$1,230,468**.

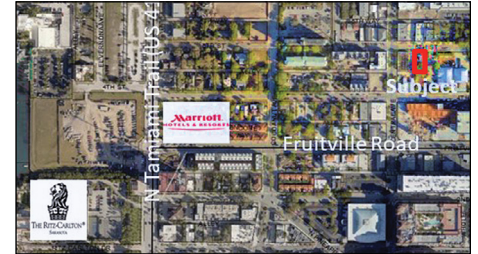
Commercial Real Estate After COVID-19

This time of quarantine has led to much reflection and speculation regarding the future of commercial real estate markets in the U.S. Clearly, this crisis is not economically driven, as was the case in 2008 (although the economic impacts have been devastating and the long-term consequences of increased national debt are deeply concerning). However, some businesses and industries are not only insulated from the economic devastation brought about by the virus but are thriving. Locally, construction remains strong, delivery services have seen an uptick in business and grocery stores are hiring to keep pace with increased demand. Conversely, restaurants, bars, nail salons, hair salons, fitness centers and particularly hotels have all been tremendously negatively impacted by loss of sales. More difficult to quantify at this point are the long-term psychological impacts from the virus. Business will undoubtedly change, but to what degree and for how long? I have heard many opinions, ranging from “no one will patronize theatres, etc. anymore” to “in a few months, and with a vaccine, this will all be a terrible memory.” I anticipate that some vacancies will result from the virus. Once reopened, businesses that struggle to get back to “normal” – especially those that have lost valuable employees or have burned through necessary operating cash – may fail. Some business owners, meanwhile, who may have been contemplating retirement prior to the pandemic, will expedite that process. Both scenarios will add to the increased available supply. However, I do not anticipate any resulting downturn to usher in across-the-board devaluations or cause properties to flood the market at “fire-sale” prices. Our market is strong, and if some properties are offered for sale at prices that are slightly below market, we anticipate that investors will eagerly acquire them – especially if the properties in question have Class A locations, adequate or abundant parking and have been well maintained. Savvy investors will not be deterred by a lack of tenants alone. Therefore, I do not anticipate “fire sales” of properties or leased investments being sold at higher cap rates than the same property would have sold for in January. My belief is that out of this crisis, as is the case in nearly every economic tragedy in U.S. history, some will be hurt, some will benefit, and the market will come back stronger.

Harshman & Company Available Properties



7005 S. Tamiami Trail, Sarasota
3,856-square-foot building, zoned CG.
\$795,000 or for lease at
\$19.50 per square foot, NNN



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



1435 S. Osprey Ave., Sarasota
Medical office or lab location,
Suite 100 = 3,000 square feet,
Suite 200 = 2,500 square feet,
zoned OPB. **\$14 per square foot, NNN**



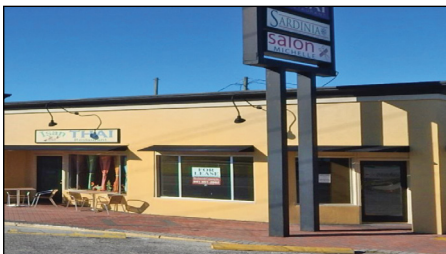
1567 Main St., Sarasota
Office, bank or retail location,
5,330 square feet, zoned DTC.
\$27 per rentable square foot, NNN



1516 Main St., Sarasota
Office or retail location,
2,500 square feet, zoned DTC.
\$29.50 per rentable square foot, NNN



1575 & 1567 Main St., Sarasota
Office, bank or retail location,
7,606 square feet, zoned DTC.
\$33 per rentable square foot, NNN



5750 S. Tamiami Trail, Sarasota
Prime retail location 1,387 square feet.
\$19.50 per square foot, NNN



4625 S. Tamiami Trail, Sarasota - Leased
7,632 square feet of retail space, zoned CG.
\$16 per square foot, NNN

Historic Downtown Commercial Real Estate Purchases By Sarasota Icons

In the past quarter, The Kress Building, The Wilson Building, The Global Financial Building and The Coastal Behavior Building have all sold for per square foot prices not before seen in our market. Each building was purchased by an end user and longtime Sarasota resident and investor. While the sales have set new benchmarks for their prices per square foot – The Wilson Building, for instance, sold for \$431 per square foot (another \$100 per

square foot to \$120 per square foot will be spent for renovations) – the fact that local businesses and individuals purchased the properties is a testament to the long-term confidence in our market. Taken together with the interest from out-of-area buyers (please see previous article *All Eyes Are On Sarasota*), it demonstrates a sound and broad market.

Rosemary District – Still Working

As mentioned previously, the Elan Rosemary apartments recently sold for \$83,800,000, or \$281,208 per unit. This transaction easily

represents the highest dollar volume sale in the Rosemary District neighborhood, an area that two decades ago was largely blighted and ignored by developers. While impressive, Elan's purchase price per door failed to come close to the \$446,000 price per unit achieved in the sale of the DeSota Apartments on 2nd Street downtown in 2019. The difference can be understood by analyzing the location of both projects, the quality of their construction and, most importantly, the occupancies and effective rental rates that each apartment property is generating.

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Recent Notable Commercial Transactions

- **Coastal Behavioral Healthcare Inc.** sold a 12,655-square foot, two-story office building on a 15,750-square-foot lot at 1565 State St. to **Sharon Carole** for \$2,700,000 on 3/31/20.
- **GFA Capital Management LLC** sold a 10,243-square-foot, three-story office building on a 7,493-square-foot lot at 2080 Ringling Blvd. to **2080 Ringling LLC** for \$1,500,000 on 2/28/20.
- **William N. & Carol S. Stelcher Living Trust** sold a two-unit building totaling 2,280 square feet on a 5,509-square-foot lot at 1776 and 1778 Main St. to **Dark Eyes LLC** for \$825,000 on 12/27/19.
- Four sellers combined to sell an assembled block of 2.11 acres on Fruitville Road to **J Sarasota Hotel LLC** for \$2,939,000 on 7/12/19.
- **Rajendra and Pratima Pathak** sold a 40,880-square-foot lot, at 1716 N. Tamiami Trail, to **Jamba Mart LLC** for \$1,100,000 on 4/26/19.
- **SOF-VIII-FT Park of Commerce North Port LLC** sold two lots, totaling 3.93 acres, in the North Port Park of Commerce to **Dollar Tree Stores Inc.** for \$408,854.16 on 4/26/19.