

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, 2023

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State of the Market

It is no surprise that inflation and steadily rising interest rates are impacting the Sarasota commercial real estate market. The 4%-5% capitalization rates are no longer marketable except for the most desired properties and owner users attempting to finance properties are experiencing new lending qualification guidelines. Population growth is the dominate factor buoying Sarasota and Florida above most other markets in the country as new residents to our market increase the demand for the limited real estate supply. Similar population increases would, in a stable interest rate climate, drive prices higher. However, the increased financing costs due to higher interest rates and tighter regulations are forcing price stabilization or price declines for the impatient seller.

Downtown properties continue to receive significant attention and properties on Main, Palm or adjacent streets often receive multiple offers and unsolicited offers. The user buyer is sometimes overbid by out-of-town investors looking to secure a foothold in Sarasota downtown real estate or looking long term for assemblage opportunities. Downtown multi-family development sites remain in high demand with properties with water view achieving the highest prices. A new player has entered the market – The City of Sarasota

is now competing for sites with the target of purchasing sites in the downtown core for attainable housing and the forecast is for some happy sellers.

National and regional retailers recognize the changing demographics and the area's dynamic buying power. The former Taylor Ranch, Wellen Park in South Venice, is driving tremendous development opportunities as businesses rush to provide services to the new residents. Wellen Park is transforming the once quiet, rural area near River Road just as Lakewood Ranch has driven the transformation of all roads leading into the ranch. North Port is now the largest City in Sarasota County and the growth of Wellen Park will drive development and politics in South Venice on into the future.

Down the Pike

To be succinct - more Development, primarily residential, is on the horizon. Development encourages and supports more development and serendipitously creates opportunities where formerly questionable locations are now in the path of progress. One of the most consequential development incentives is the recent City Commission approval of the Future Land Use change to Urban Mixed Use for properties fronting major roads particularly impacting older shopping centers. This Future Land Use change and accompanying

Zoning Text Amendments will clearly incentivize redevelopment of languishing shopping areas and usher increased land values. Some of the struggling shopping centers will be redeveloped under the new Mixed-Use land use once the underlying zoning classifications are fully amended over the next 6 months. Some early buyers are solidifying their place in what will be a development wave as property owners are seeing their land values reach only dreamed of prices. How will the centers be redeveloped – well with residential of course.



John B. Harshman, Broker
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Thinking about selling your commercial property?

The current commercial real estate market is as strong and stable as I have experienced in my 40-years as a commercial real estate broker. That translates to increased sales prices and shorter time on the market. If you are contemplating selling your commercial property, please call us for a valuation and assessment of your property.

Request our newsletter by emailing service@harshmanrealestate.com or by visiting our website.

View our listings on our website: www.harshmanrealestate.com or on the following Multiple Listing Services: www.mfcre.com or www.crexi.com

The Threat of Too Much Residential

A few years ago, The City of Sarasota agreed to rezone a local tennis club permitting condos to be developed on a site that was once a tennis, racquetball, and fitness club. As a tennis club the land was worth about \$3.5 million but the rezone increased the value to more than three times that amount. By agreeing to the rezone to residential, The City made the tennis club owner millions, and the purchaser then flipped the property for additional millions after additional residential density was obtained again by the City commission. Yes, the site of a poorly maintained tennis club will be redeveloped into a new condo project with some tennis facilities but had the rezone not been approved the owners would have sold the property to fitness club operators who would invest in the tennis club providing much needed and complete recreational facilities for the ever-growing population base. Today we are seeing the County petitioned to approve 1200 apartments at the former Sarasota Square Mall. Yes, apartments are in high demand, but we must be careful that all commercial sites are not rezoned for multi-family just because the demand is present – a community needs commercial and lifestyle amenities not just residential apartments or condos.

City Zoning Changes

To say that The City of Sarasota has embraced residential density is an understatement. Urban density is a position espoused and supported by the famed land planner and architect, Andres Duane, who aided, by recommending zoning code changes, the transformation of Sarasota's downtown. Key to Duane's plan was increased residential density and he continuously illuminated the positives of increased residential densities in downtowns. Duane was much too savvy to say that "population growth" was integral to a lively downtown but rather presented the rational argument that the restaurants and retailers, all of whom we love to patronize, need customers, and it is best if the customers can walk to

the destinations. Hence a downtown needs a residential critical mass to support what we "all really want" – a vital, active, entertaining downtown. To that end, The City experimented with the Downtown Residential Overlay District "DROD" in the early 2000's. The market and economic times challenged the success of the DROD that increased density in a prescribed area of downtown to 200-units per acre. Three projects have been constructed utilizing the DROD. The DROD has long expired but the next tremendously successful attempt at increased residential density was the original RROD which increased the density in a defined area of the Rosemary District to 75-units per acre without any other code changes. Three apartment projects were immediately developed under this new increased density transiting the Rosemary District from a hope to the success it is today. Fast forward to this summer where it is anticipated that The City will pass a residential density increase of 4X's in the downtown zones excluding the Rosemary District provided about 15% of the "bonus" units are "affordable". This will encourage redevelopment all over the downtown – not every site will work for the increased density as site geometry of each site is critical for an efficient development, but enough sites are candidates that new housing opportunities will abound.

Property Management

Property Management is an area of real estate that seems simple but often can be a source of major headaches. Key for managers is TLYT (think like your tenants). Example – your business is in a multi-tenant office building, business is intense, and you focus all your attention on servicing your clients. In August and the a/c in your office fails an hour before a critical meeting, or your business's designated parking spaces are pirated by neighboring restaurant employees. These are issues you just don't have time to devote to. You call your property management company and if they do not respond your business is interrupted. The best property management companies just use TLT (think like a tenant) as a foundation

of their customer service and work to anticipate potential property problems before the problems impact the tenants.

Market Indicator

One periphery data point I consider when assessing the real estate market is governmental activity – specifically government buying or selling real estate. With all respect to my friends at City Hall – I have never seen The City, as a buyer or seller, make a "good" deal. Case in point – The City recently agreed to sell the Marian Anderson Place 14-acre parcel to a "friendly" development group fronted by some local developers at an absurdly low price without first putting the property on the market. As an assurance of obtaining the best price and terms, one should always put a property on the open market – particularly in a growing region like Sarasota. On the buy side, The City is working to buy the south side of 1st Street between Orange Avenue and Lemon Avenue, saving the former Sur la Table building. The plan seems to be for "affordable" housing. Development is not for the faint of heart and this scheme has all the ingredients of a money pit – yes, using taxpayer's money.

The Source of Florida's Economic Stability

Why is Florida's economy and particularly its real estate market so much better than some other states? Florida is well-managed with budget surpluses, increasing pay for educators and life safety professionals and increased funds for environmental protection. Florida has a practical no nonsense approach to dealing with issues other states seem to ignore and hope the issues go away. It is just those unaddressed issues that are driving people away from some states and the reason Florida is receiving about 1,000 new residents per day – ugh, that seems like a lot. I have been fortunate to live in Sarasota for 49-years and I do not recall seeing California license plates until about 5 years ago, now – California plates are ubiquitous.

Featured Properties



534 S Pineapple Ave., Sarasota

Located in the tony Burns Square neighborhood, this leased investment has tremendous potential. The building is fully leased with eight tenants including the owner's business who will stay or vacate depending on the buyer's needs. All tenants enjoy below market rental rates and most have been in place for several years. The 90 feet of frontage on Pineapple Avenue and private parking gives this DTC zoned property frontage, parking and excellent geometry for any future development. **For sale at \$3,800,000.**



7204-7216 S Tamiami Tr., Sarasota

Located on high traffic South Tamiami Trail this property is a gem waiting for redevelopment. The CG zoning permits a wide variety of uses and the 230+/- foot frontage offers tremendous visibility for any business. This one will not last! **For sale at \$1,250,000.**



1561 Main St., Sarasota

Superior Main Street office or retail site in the heart of downtown's thriving business district. This property offers tremendous Main Street visibility and in close proximity to award-winning restaurants, stores, financial institutions and hundreds of other businesses. With thousands of professional and other workers in a short walking distance, 1561 Main St. is uniquely situated. A rare "can't miss" opportunity! One of the few properties with walking access and adequate surface parking. Call now to be one of the few lucky businesses to be able to put down roots at this central commercial hub! 3,660 square feet for lease at **\$40 per square foot, on a triple-net basis.**



6561 Palmer Park Circle, Unit A, Sarasota

A must-see gem of an office suite located just off Clark Road in the thriving Palmer Ranch. The 3,500-square-feet of office space is beautifully appointed with a 9+ foot ceiling, crown molding, large offices, open area and conference room. Includes ample parking and a fantastic value at **\$22 per square foot, Mod. Gross.**



1050 S Tuttle Ave., Sarasota

Looking for a 28,000 sq ft school building? We have it and not just any school building – this building is beautifully designed and comes with an adjacent soccer field. The location can't be beat at the corner of Tuttle Avenue and Bahia Vista in The City of Sarasota. This space is being leased in "as is" condition and will be available July 2023.

\$12 per sq ft NNN or \$28,194 per month base rent for a 2-year minimum.

Commercial Brokers Should Own Commercial Real Estate

As a forty-year Sarasota commercial real estate broker, I never fully understood what my clients were experiencing until I owned commercial real estate. I purchased my first property in the mid 1980's and have continued to selectively acquire properties. Note that every property I have purchased was actively on the open market and I never

purchased my listings. Owning property gives one valuable firsthand experience and highlights issues all property owners experience but may not be readily visible. As an esoteric example - commercial property owners see about 37% of their tax bill applied to state and local school boards while the property does not enroll a single child in schools. I do not object to this and rather highlight the point that, as a commercial property owner, we help fund schools and should therefore voice

our opinions regarding schools whether we have children in schools or not. Owning commercial property is not always a walk-in-the-park; dealing with market undulations, losing tenants, understanding governmental changes that positively or negatively impact your property are just a few of the challenges with which our clients contend - as brokers we observe this but as brokers/commercial property owners we live it.

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Recent Notable Commercial Transactions

- **Non Compos Mentis, LLC** sold the 1,408-square-foot retail condo located at 645 S Orange Avenue to **Farmland Opportunity, LLC** for \$725,000 on 5/16/23.
- **Martin Realty Investments, Inc.** leased the 7,632-square-foot retail building located at 4625 S Tamiami Trail to **Mattress Home, Inc.** on 5/3/23.
- **EDM-Sarasota, LLC** leased 10,719-square-feet +/- office space at 1515 Ringling Blvd. to **Ferguson Skipper, P.A.** on 4/4/23.
- **RL 107, LLC and Medallion Holdings, L.L.C.** sold the 12,610-square-foot +/- vacant lot at 1809 Ringling Blvd. to **Ringling Development, LLC** for \$1,700,000 on 10/18/22.
- **The Marilyn K. Paderewski Revocable Trust** sold the 8,170-square-foot vacant lot located at 101 S. Osprey Avenue to **Perprice 2, LLC** for \$1,500,000 on 9/30/22.
- **Golden Coast of Sarasota, LLC** leased the 6,653-square-foot office suite at 29 N. Pineapple Avenue, to **West Florida Distributors Inc. dba Design Works** on 9/12/22.