

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, 2016

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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.

Reflections on Sarasota 2015 Commercial Real Estate

The year 2015 will be remembered as exceptional for commercial real estate in the Sarasota area for virtually all sectors. In addition to the numerous construction projects dotting the landscape, the region in the past year has experienced record-breaking sales involving development sites and income-producing investment properties alike. Leasing activity in many areas has been brisk; especially in the office and industrial sectors.

Downtown Sarasota has been among the most active of submarkets in all of Southwest Florida. The city's core has a trio of lodging projects underway as of the end of 2015, along with new apartments and condominiums. Road work continues to improve downtown's vehicular and pedestrian grid, and new retail shops are busy building out their interiors in anticipation of another stellar winter tourist season.

Taken together, the construction will result in a more invigorated, attractive and lively downtown that will take another step toward the "24-hour city" planners envisioned nearly 20 years ago.

The Residential and Lodging Sectors

Collectively, the number of new hospitality and residential units that are planned are staggering, and speak in part to the proliferation of capital flowing into commercial real estate and the continued compression of cap rates on various investments.

To the slightly more than 3,300 condominium units downtown, more than 900 are expected to be added within the next two years. At the same time, at least 1,100 new apartments in a half dozen new complexes have been announced, though many of those projects have yet to start construction. The new apartments, which will be marketed to downtown Sarasota's growing millennial population and aging baby boomers alike, are a pleasant, albeit unintended, consequence of the Great Recession. That's because the prolonged economic downturn, the longest in America since the 1930s, shifted the profile of land buyers to new players able to acquire sites at historically low prices. The trend lent itself especially to new apartment development here and elsewhere, because condominium sites typically sell for more than similarly sized apartment sites. Because of the economics associated with condominium development, land buyers for those projects

usually eclipse what multifamily developers can or are willing to pay for tracts.

More than 1,500 new hotel rooms also are planned for downtown, to meet increased visitor demand and to introduce new brands and offerings from operators such as Marriott and Hilton.

Of the new hotel rooms announced, more than 600 are currently under construction, led by a Westin Hotel that will deliver 255 keys. Interestingly, all of the hotels being built or planned are in the downtown core. None of the new hotels are near Sarasota's beaches – once believed to be a necessary ingredient for lodging. That trend officially kicked off in 2001, when the Ritz-Carlton Sarasota debuted. In the years since, the resort's staying power and the hotel's ability to achieve high room rates have prompted other hotel operators to add amenities and bump up rates, especially in winter.

Even so, Harshman & Co. contends the seemingly omnipresent collective optimism at the end of 2015 – a mood quite reminiscent of a decade ago, in fact – may be somewhat overly exuberant, as some sectors and geographic areas have failed to benefit to the same degree as others. The sheer number of multi-family and hospitality projects announced or under construction, for instance, leads us to wonder whether both sectors may be on the cusp of being overheated.



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The Retail Sector

The area's retail market serves as a prime example of a sector that has failed to keep pace with other growth. While many merchants downtown were blessed with record sales in 2015, some new retailers have failed to gain the traction they anticipated. Restaurant properties remain active, but overall retail development had lackluster investment activity in 2015. Many merchants appear to be taking a "wait and see" approach regarding the 880,000-square-foot Mall at University Town Center that debuted in October 2014 and the proliferation of retail development surrounding the \$315 million mall. As a result, many appear to have held off on potential relocations or expansions.

Though the UTC mall hasn't lived up to either retailer or customer expectations in some cases, it nonetheless has proved to be a unique venue for retailers that had not previously been present in the Sarasota area.

Overall, the bright retail spot in the region continues to be St. Armands Circle, which has captured both tourist traffic and local sales alike. As evidence, vacancies around the circle are almost non-existent, and the few empty

storefronts and restaurants that do appear are typically quickly backfilled.

However, some pockets of retail space throughout Sarasota languish. Most noticeable is Westfield Corp.'s Southgate Mall, once the premier shopping district in Sarasota County. Tenants from Saks Fifth Avenue to Williams-Sonoma have exited the mall for UTC, leaving Southgate a shell of its former self. Plans to reinvigorate the retail hub into a "lifestyle center" focusing on dining and entertainment are proceeding, but slowly. CinéBistro's planned early 2016 opening could help jumpstart the mall's renaissance. Southgate's evolution into a lifestyle center comes with its skeptics, however, and some observers remain concerned that the mall won't regain its place as a pure retail hub and one of Sarasota's primary shopping districts despite continued strengthening of the demographics within the mall's selling metric.

Office and Industrial Sectors

The office market in 2015, meanwhile, was one dominated by largely lateral moves, as businesses sought more or "better" space. And while activity and shrinking blocks of

larger spaces are generally considered a sign of economic health, downtown class A vacancy rates continue to hover around an uncomfortable 12%, a sign that few new businesses are entering the market. Still, there were a few investment-grade sales that occurred regionally in 2015, such as the \$37 million acquisition of the four-building Gateway Professional Center in Sarasota County – a transaction Harshman & Co. helped facilitate.

The area's industrial market, however, has shown more improvement. Although the Great Recession caused bank-owned properties and distressed sales to flood the market, a steady stream of activity since 2012 has whittled down the supply of industrial buildings, especially so-called "flex" space that can be used by a variety of businesses and often contains a mix of both office and industrial space.

Three years ago, industrial sales ranged from \$30 per square foot to \$45 per square foot, because of the abundance of space available. Lenders were in possession of many properties and demand lagged. Today, industrial properties are selling for close to \$70 per square foot – a number that is significant because it is close to replacement costs.

Featured Properties

Great Value for Your Suburban Office

This premiere newly constructed building will be built-out to a tenant's specific needs. Perfectly located south of Clark Rd in Palmer Ranch, this property provides an easy commute and ideal suburban office space. Don't miss this opportunity.

7,500 +/- sq ft, may be divided 2,500 sq ft minimum, zoned ILW, \$16 sq ft.



Looking for a Leased Investment?

Rarely do properties like this leased investment opportunity reach the market. This property checks all an investor's boxes; great corner location, high traffic exposure and most importantly a quality AAA tenant. Located on the most desirable section of South Tamiami Trail. Call (941) 951-2002 for additional information.

2,772 +/- sq ft building, 17,224 +/- sq ft land, zoned OPB, \$895,000



High Quality Warehouse Opportunity

This unique warehouse office announces pride of ownership from the striking modern office to the single column 14,700-square-foot block constructed warehouse/office. Equipped with truck well and grade level 12X14 overhead doors this building is perfect for many businesses desiring quality of structure and location plus additional land to add 15,000 square feet.

1.80 acres land, 14,700 sq ft warehouse/office, zoned ILW, \$1,900,000



Harshman & Company Available Properties



3808 N Tamiami Trail
93,218 +/- sq ft (2.14 acres) land,
14,286 +/- sq ft building, zoned NT.
\$1,950,000



4242 Gypsy Street
2.2 acres, with 5,216 +/- sq ft office/
warehouse, zoned CI (Sarasota County).
\$595,000



936 42nd Street
1,100 +/- sq ft building, 6,305 +/- sq ft land,
Commercial catering kitchen, zoned CG.
\$179,000



4041 Sawyer Ct
1.6 acres, with 20,575 +/- sq ft warehouse
building, zoned CI (Sarasota County).
\$1,800,000



1620 Main Street, Unit 10
1,100 +/- sq ft office condominium,
zoned DTC.
\$149,000



2401 Commerce Pkwy (North Port)
13.19 +/- acres (7.89 useable acres)
vacant land, zoned ILW.
\$650,000 (\$1.89/useable sq ft)



North Port Park of Commerce
7 lots ranging from 1.25-2.15 acres,
zoned PCD.
**Price ranges from \$260,000-\$675,000/
lot \$4.78-\$7.22/sq ft**



5951 McIntosh Rd
242,336 +/- sq ft (5.56 acres)
vacant land, zoned ILW.
\$3,635,040 (\$15/sq ft)



100 & 180 Center Ct, Venice
102,539 +/- sq ft (2.35 acres) vacant
land, zoned ILW (Sarasota County).
\$1,230,468 (\$12/sq ft)



1716 N Tamiami Trail
40,880 +/- sq ft vacant land,
Permits 35 units per acre, zoned NT.
\$1,450,000



7100 S Beneva Rd
3,812 RSF of two tenant building, private
parking lot, zoned OPI (Sarasota County).
\$17/RSF NNN



25 N Pineapple Ave
Retail Space 1 = 1,975 sq ft - **Leased**
Retail Space 2 = 2,360 sq ft
Retail Space 3 = 6,250 sq ft - **Will Divide**
\$22-\$30 per sq ft NNN
Estimated tenant expenses \$5-\$5.50/sq ft.

Thoughts on the Year Ahead

Barring a national economic setback that would have ripple effects in Sarasota, the region's commercial real estate market is poised for yet another bump in 2016. Retail, restaurant and industrial properties are likely to gain strength and build on momentum already in place.

Conditions for retail properties, in particular, should improve thanks to the significant number of residential units and hotel rooms expected to come online delivering new customers. We anticipate about a 60% increase in downtown residents and a significant bounce in hotel reservations, both of which should bode well for shops

and restaurants and fuel demand for the city's entertainment venues.

Vacant industrial space, meanwhile, should continue to be absorbed, which will create an opportunity for new construction to occur in the coming year. Most bank-owned and distressed industrial buildings have been sold, closing that opportunity for investors, at least for now. We expect that if current trend lines in the market continue, users will over the next 12 months begin to purchase available industrial lots for new construction. In addition, a few of the area's major developers may decide the time is right to build new industrial and flex space on a speculative basis.

From a macro-economic perspective, while the Federal Reserve has begun to hike interest rates, the increases are likely to be so small in 2016 that the cost of capital will remain at historically low levels – furthering demand for commercial real estate. By some estimates, some \$3 trillion is poised to enter commercial real estate markets nationwide over the next few years, the result of a lack of confidence in the stock and commodities markets. Sarasota, too, will garner its share of attention, and high-caliber commercial real estate properties will likely be in even greater demand by investors in the year ahead, as cap rates hover in the 4.5% range. As always, we believe that well-located, triple net leased properties with national tenants will command the lowest cap rates.

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Sampling of Commercial Transactions

- **Heather Glen Holding Company LLC** sold the 396-unit The Glenn Apartments on 30.23 acres at 10801 Heather Ridge Circle in Orlando to **FL The Glenn, LLC** for \$42,000,000 or \$106,060.61 per unit on 1/12/16.
- **Citation 320 Delaware LLC** sold the 320-unit Citation Club Apartments on 22.35 acres at 4110 Winners Circle in Palmer Ranch to **BR Carroll Palmer Ranch LLC** for \$39,250,000 or \$122,656.25 per unit on 1/5/16.
- **Summer Wind 368 Delaware LLC** sold the 368-unit Summer Wind Apartments on 14.69 acres at 5401 Summerwind Dr in Naples to **BR Carroll Naples, LLC** for \$47,000,000 or \$127,717.39 per unit on 1/5/16.
- **Vista Palma Sola, LLC** sold the 340-unit Vista at Palma Sola apartment complex on 24.25 acres at 3900 75th St W in Bradenton to **Vista at Palma Sola Apartments, LLC** for \$43,000,000 for \$126,470.59 per unit on 12/21/15.
- **TGM Yacht Club, Inc.** sold the 392-unit Yacht Club @ Heritage Harbour apartment complex on 27.98 acres at 6510 Anchor Loop in Bradenton to **Northland Yacht Club, LLC** for \$70,500,000 or \$179,846.94 per unit on 12/15/15.