Harshman&Company,Inc.
COMMERCIAL REAL ESTATE BROKER

Real Estate Market Update

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Articles

Real Estate Market Update
is published quarterly by
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Harshman & Company, Inc. is a full-service commercial real estate company specializing in commercial & industrial sales, commercial & industrial leases, property management, consulting, site selection and market research.

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Disciplined Buying

A seasoned real estate investor cautioned me early in my career not to fall in love with a property. His sound advice continued; "make thoughtful market based buying decisions, keep emotions in check and have a short and long term plan". Unfortunately, during this last frenzied market some buyers did not adhere to this wisdom; particularly the advice about making sound market based buying decisions. In 2003-2004 Main Street storefronts with no parking sold for more than $300 per square foot and then were leased to tenants paying rental rates well below what this purchase price demands. Land on U.S. 41 between 4th Street and Fruitville Road was purchased at prices no allowable development project could support, and downtown historic buildings were purchased and renovated at costs far exceeding what the market will support. Not unlike the frenzied stock market of the late 1990's buyers replaced rational buying practices with unqualified expectations. What will happen to properties purchased at prices well above the market? Unfortunately, the result is almost always a loss. If the property is income producing the loss may be minimized. If the property is non-income producing or purchased for an unrealistic development; the loss may soon be so significant that the lender becomes the owner—this worst case hurts the market as well as the buyer.

Delayed and Abandoned Projects

Many of the highly publicized Sarasota developments have been delayed or simply abandoned. What impact does this start and stop effect have on the market? Not much for the downtown core as its new vitality is secured by the many completed or soon to be completed developments. The North Trail is a different story. One developer alone terminated several North Trail purchase agreements for planned developments that promised additional vitality for the North Trail. While all the North Trail abandoned projects were mixed-use; the residential component provided the economic juice. As the residential market slows, so slows some dreams for the next phase in North Trail revitalization.

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State of the Real Estate Market

2006 will be remembered like a splash of cold water waking us up from the dreamy frenzied market of 2003-2005. Residential sales slowed and in some instances prices dropped. The commercial market wakeup was gentler but still a wake up as buyers were alerted to slowing appreciation. 2006 offered brokers a respite from frenzied deal making to reflect on the 2003-2005 markets and suggested to others a different career. In retrospect; the fuel igniting the market blaze of 2003-2005 was low interest rates. People across the country leveraged the low interest rates to buy larger homes, new homes, cars and commercial property. Capitalization rates reached new lows and sale prices reached new highs.

Steady climbing interest rates in 2006 ushered in the slowing market. Fortunately, while increasing just 3-4 points, interest rates are still low and have not ramped up to the double digit levels that historically smother markets. Just the hype of the Baby Boomers beginning to retire with their own, as well as their parent's, money was a force in the 2003-2005 market In reality, the Baby Boomer's impact will be realized on a longer horizon juxtaposed to the immediate impact of precipitous interest rates. The relative quiet of 2006 is a much needed time to weed out inexperienced developers and some ill conceived projects that never broke ground. Even in light of all the discussion of slowing markets and dropping of prices the market remains healthy. Vacancy rates across the board are at all time lows, rental rates, while increasing remain attractive and interest rates are low. 2007 looks to be a very steady year. A great deal of money is on the sideline waiting for residential market movement and many projects previously planned and permitted are poised to move forward as the market turns. The pressure for more office space is building. Residual from the frenzied days are some high priced properties remain on the market. Sellers are working with a different dynamic, a buyer's market, which simply means look carefully at your pricing if you really do want to sell!

Winners, Losers and Players

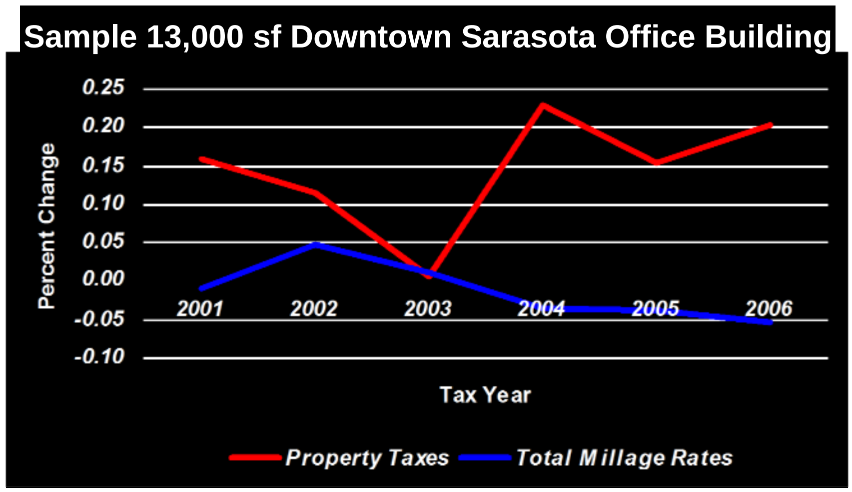
Government was clearly the hands down winner in this last real estate cycle. Each of the past six years Sarasota governments received an annual ad valorem revenue windfall of 13%. The City and County coffers should be bursting with this unexpected and unbudgeted gift from the real estate market! Winners in the owners private sector were owners of real estate who heard all the hype that the market would never stop going up, but relied on confident discipline and sold for a profit and the short term "investors" who got in and out quickly with a profit. Losers are the unfortunate who just hung around too long refusing to sell because "someone will always offer more" and the gamblers who purchased or contracted properties that they could not afford to purchase with the sole intent of "flipping" for a profit that never materialized. It is always hind site that recognizes winners and losers and no one wins all the time, and to all the participants it was an exciting cycle. The players are all the participants in Sarasota real estate who enjoyed the wild ride. Participants are a little wiser and hopefully wealthier after a time that will be remembered as the great boom of 2000.

Increasing our Real Estate Value

In addition to a strong economy; the quality of your neighbor's property significantly impacts the value of your property. Did someone purchase your neighbor's property as part of a new development or was it purchased by speculators to hold out for another buyer? Each scenario produces dramatically different results and, while we cannot control a purchaser's intent, we can anticipate the consequences. Our property values increase the most when our neighbor improves his property, or his property is purchased as part of a larger development. New development and renovation of existing properties often have a domino effect for a neighborhood by increasing the critical mass, buying power and aesthetic appeal of an area. Some neighbors may not want the increased exposure, increased critical mass or increased buying power, but few have objected to the increased value.

Ad Valorem Taxes

Owners of commercial and non-homesteaded real estate have watched their ad valorem tax bill increase each year for the past six years. We are often quick to question the property appraiser, but note that the assessed value reflects the market value and does not determine taxes—millage determines taxes. City and County commissioners control millage rates. Ad valorem revenues to governments have increased annually by 13% for six years. This windfall would delight any business. The result of the windfall is more money for government to expand and fund new projects. The less obvious result is the impact on affordable housing as rental rates are increased to help offset rising taxes. Similarly, commercial rental rates are increased to pay taxes which pressures businesses. Simple solution—reduce the millage rate.



Missing in the Rosemary District

New development is missing in the Rosemary District. This area has been heavily hit by "developers" proposing dramatic new projects and by speculators hoping for a developer, or even the next speculator to purchase their property for a profit. Speculative buying may have had some success in 2003-2005, but in this slower market properties that were purchased to flip to the next enthusiastic buyer are likely to remain undeveloped holes in a neighborhood and problematic eye sores. The Alanari and Rosemary Condominiums are the only two new developments in this much discussed neighborhood. On the positive side, there have been some fine renovation projects that help lift up the area, adding charm and character. However, absent is the much anticipated neighborhood vitality boost promised by each unrealized new development.

"The Alanari and Rosemary Condominiums are the only two new developments "

Retail Real Estate Market

The retail real estate market has always marched to its own beat. Unlike industrial uses where singular zoning dictates location or office where proximity to government and financial centers attracts users; retailer's are more fluid and responsive to populous buying habits and evolving residential hubs. Not at all capricious, the changes in retail locations are reasonable and predictable. Look for roof tops. The tremendous residential development in Lakewood Ranch coupled with the massive residential development in south Manatee County west of I-75 and south of St. Rd. 70 generates retail demand. Roof tops dictate retail location and median household income dictates the retail mix. Surprised to hear of massive retail developments planned for I-75 and University Parkway or significant retail at the Bayside (formerly the Quay)? All the neighboring residential development of 2002-2005 was presage.

HARSHMAN & COMPANY PROPERTIES FOR SALE OR LEASE

INDUSTRIAL LAND FOR SALE

■ 3941-3942 Butler Avenue, 2.83 +/- acres of land, zoned ILW, $1,531,570

COMMERCIAL LAND FOR SALE

■ 4644 N Tamiami Trail, 6.2 acres of land, 2.8 acres zoned NT & 3.4 acres zoned RSF-3, approximately 116 total residential units permitted, 370 feet of frontage on N Tamiami Trail (US 41), $7,300,000

■ 1445 2nd Street, 36,750 +/- sq ft of land, 14,005 +/- sq ft building, zoned DTC (permits 50 units/acre and 10 stories height), $10,080,000

SALE PENDING

■ Manatee County - 4523-4603 53rd Avenue E (SR 70), 2.49 acres of land, currently zoned A-1/PR-M, future land use ROR-Retail/Office/Residential, sellers are rezoning for office and/or retail use, $1,300,000

COMMERCIAL BUILDINGS/LAND FOR SALE

■ 51 Wallace Ave, 900 +/- sq ft office building on 6,250 +/- sq ft land, zoned DTC, near courthouse, $756,250

■ 1716 N Tamiami Trail, Galaxy Motel, 4 buildings totaling 6,500 +/- sq ft including 3b/3b owner's residence located on 40,880 +/- sq ft of land, zoned NT, $1,750,000

COMMERCIAL RETAIL LEASE

■ 560 N Washington Blvd, Unit C, 1,520 +/- sq ft storefront, ample parking, zoned CG, $17.00/sq ft NNN

■ 126 N Orange Ave - 2nd Floor, 1,600 +/- sq ft, 2 non-designated parking spaces in rear of building, $13.00/sq ft NNN

OFFICE FOR LEASE

■ 8588 Potter Park Dr, 4,500 sq ft office, zoned OPI, ample parking, $22.00/sq ft gross

OFFICE CONDO FOR SALE OR LEASE

■ Atrium on Ringling - 1750 Ringling Blvd, 9,300 sq ft available on floor 5 @ $400/sq ft, 9,700 sq ft available on floor 6 @ $425/sq ft, CAM estimated at $6/sq ft annually, 4 parking spaces per 1,000 USF, 2/2,250 useable sq ft ground floor retail/office units @ $425/sq ft, Lease rate $27 per sq ft NNN, 14% add-on factor

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Office Rents

Demand for office space along the I-75 corridor, downtown and in suburban markets is modest at best, but the very low vacancy rates encourage rental rates slowly upward. The wide gap between the cost of new office construction and rental rate returns is keeping developers on the sidelines poised to build when rental rates reach appropriate levels.

Industrial Land Prices

The availability of industrially zoned lots in north Sarasota and near I-75 is scarce. Consequently, prices for industrial lots have jumped from $2.50 to $6 and $7 then up to $10-$12 per square foot. Moving right up with the high cost of land is increased construction costs that combine to double the challenge for small businesses, particularly light manufacturers.

Condo Consequence

During times of increasing market demand, commercial condominium ownership offers a vehicle for small users to own their own property. One of the most active markets recently was apartment building conversions to residential condominiums and similarly, rental office parks have been purchased with the intent of converting the units to office condominiums. A problem arises when aging multi-tenant office buildings are purchased for conversion to condominiums when the reality is that the functional life is ending and the buildings should be demolished. The result is future assemblage of units for redevelopment is hugely exacerbated by multi-ownership and the community must tolerate a marginal development.

SAMPLING OF COMMERCIAL TRANSACTIONS

■ **Joseph Costello Properties** purchased the 46,127 sq ft +/- office building on 136,096 +/- sq ft of OPI-zoned land at 5540 Bee Ridge Rd from **Center Gate Ptshp** for $5,800,000 on 06/15/06.

■ **Gator Sarasota LLC** purchased the Shopping Center on 485,999 +/- sq ft of land zoned CSC-R at 501 N Beneva Road from **Town & Country Associates Ltd** for $6,336,200 on 09/15/06.

■ **Ringling School of Art & Design** purchased the 2,669 +/- sq ft building on 40,870 +/- sq ft of land zoned NT from **Motiva Ents LLC** for $1,900,000 on 11/02/06.

■ **Charles & Joan Sulesky** purchased the 1,300 +/- sq ft commercial condominium zoned ILW at 4157 Clark Road from **The Albren Group LLC** on 12/15/06 for $405,750.

■ **7131 Curtiss LLC** purchased the 5,747 +/- sq ft office building on 22,747 +/- sq ft of land zoned OPI at 7131 Curtiss Avenue from **Orville L & Nancy L Allen** on 12/22/06 for $700,000.

■ **Paleo 8 LLC** purchased the 56,861 +/- sq ft vacant lot zoned ILW at 8221 Vicela Drive from **Fruitville Investments LLC** on 12/21/06 for $526,000.

Source: Sarasota County Property Appraiser and other reliable sources.