

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

Summer, 2017

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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](mailto:service@harshmanrealestate.com). Please let us know, as well, if you would like to receive this newsletter in an electronic form.

## State of the Market

The stock market is setting record highs and the unemployment rate is reaching new lows. From multiple perspectives it appears Southwest Florida's economy has recovered from the Great Recession. Given this momentum, is it possible for the real estate market to experience a significant slowing or even decline? Absolutely – real estate is governed by supply and demand. A strong economy may ease the macro impact of a real estate market slowdown, but product oversupply almost certainly will usher in a downturn that can be devastating for those involved. Additionally, while oversupply in one real estate market segment may not be repercussive throughout the entire market, the dynamic of oversupply will significantly impact the oversupplied market segment. Over the past four years, downtown Sarasota has experienced an unprecedented residential build up, much of it driven by

true market demand. But as often occurs, perceived demand can also be magnified by developer enthusiasm to deliver what they consider “unique” residential product to the market. Consider the Rosemary District, where approximately 1,300 new residential units and 200 hotel rooms are about to be delivered. South of Fruitville Road, and along the waterfront, another roughly 1,000 residential units expect to be added by January 2018. While sales and leases are transacting, the pace has been somewhat less frenetic than some developers anticipated. As is often the case in growing markets, the first developments delivered are absorbing the demand and achieving sales and leasing benchmarks as their pro forma projections indicated, but the slowing demand does not bode well for those projects under construction or projects soon to be competing for buyers and tenants. Meanwhile, as the residential market in Sarasota has become frothy, the other market segment being impacted by oversupply is the office market. Buyers are still purchasing office buildings as investments or to use, but tenants are few and far between; a critical market dynamic that will cause rental rates to soften over the long term unless fundamentals drastically change. Unlike the residential market, however, the office market's oversupply is a result not of overbuilding but of shifts in how business is conducted – the result of technology and greater mobility – and less overall demand for brick-and-mortar space.

## Pricing Condo and Apartment Sites

I often receive requests to value a condominium site. On the surface the procedure is relatively simple. First one has to determine zoning and understand the entitlements associated with that zoning – how many units may be built, height restrictions that may be in place and other requirements that might impact pricing such as required setbacks and step-backs. The key is the total number of units permitted under the zoning classification. Occasionally, it is merely a matter of multiplying the per unit value times the number of units. But valuing each entitled unit equally may not be appropriate for every site. As an example: zoning may permit 70 units on a water view site but if the site is long and narrow, only a few of the units might possess premium water views, which would be valued significantly higher than units without water views. A property owner, therefore, would be mistaken to anticipate a water-view price per unit for an entire tract of land where only a fraction of the units would command such a premium. If you have a question or a concern about the value of your condo or apartment site, please call Harshman & Co., Inc. We're here to help.



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## Trigger Words From the Past

Remember these phrases from the boom times of a decade ago? “They’re not making any more real estate so you’d better buy now. I’m quitting my day job to flip real estate – it’s so easy.” And my favorite: “The value of the property is only going to go up, so there’s virtually no risk involved.” Unfortunately, I’m beginning to hear these phrases and variations on them once again. It appears that some people have forgotten that real estate is cyclical in nature. There are consequences and pain associated with believing the hype and being blind to reality, as many experienced beginning in 2008 when euphoria about the Southwest Florida real estate market turned to gloom and devastation for some. “Those who cannot remember the past are condemned to repeat it” seems an appropriate phrase in these times.

## Industrial Properties – Houses for Jobs

Arguably hit the hardest by the Great Recession, the much maligned industrial market has finally recovered, and confidence in the sector has returned. The prime indicator

of sector health – rental rates – are rising to a point approaching replacement costs, even as supply is being absorbed to a level that expanding businesses have few options other than to build new space to accommodate their growth. If you own a business that utilizes industrial space and need to relocate to accommodate growth, or if you have an industrial asset and have wondered what its value is in today’s market, call us. We at Harshman & Co. would be happy to provide you with a consultation and a valuation.

## Multi-Family in High Demand!

The region’s apartment sector has gained widespread attention thanks to a series of eye-popping transactions. Most recently, Continental Properties of Wisconsin paid Inland Real Estate more than \$50 million for the 607-unit Lost Creek at Lakewood Ranch complex, which was completed in 2012. Similarly, many communities are trading in the range of \$90,000 to \$140,000 per unit, meaning a 100-unit complex might fetch \$14 million on the open market. While these deals seem to have outsized prices attached to them, one cannot discount the reality that home ownership rates nationwide have fallen

to historic lows, and area population and job growth is buoying demand for rental units. Likewise, development costs today, when adding in land and construction commodities, would make it increasingly difficult to build that 100-unit complex for less than \$14 million.

## New Life on Main St.

It’s easy to believe that a departure by a key downtown merchant or restaurant is a bellwether for a larger trend, but in actuality, over the past decade retail vacancies in our marketplace have been quickly filled. Take Sarasota’s Main Street, for instance; in the past year, desired tenants such as Alex and Ani and Brooks Brothers have departed, the latter after roughly a decade at the key intersection of Main Street and Lemon Avenue. Both retailers are missed but others have taken their place. The turnover does affect the market in that rental rates do not escalate as supply is steadily replenished.

Testament to the strength of downtown retail that backfilled so quickly – upscale cosmetics store Bluemercury backfilled the Brooks Bros. space and Harry Roa Jewelry Design Studio filled in where Alex and Ani exited.

## Featured (For Sale or Lease)

### 3938 S. Tamiami Trail

Zoned CGD in the City of Sarasota  
Fantastic, fully renovated 1,500-square-foot professional office and showroom. Parking for seven cars on site. Vehicular traffic exceeds 56,000 per day – a true showcase!  
– **\$495,000** (price reduced)  
**For Lease at \$20 per square foot, NNN**



### 2080 Ringling Blvd., Sarasota

This three-story, 10,587-square-foot building sits on 7,493 square feet of land in the heart of Sarasota’s legal district, close to the 12th Circuit Courthouse, Sarasota Police headquarters and other municipal services. A true gem. Zoned DTC. – **\$1,950,000**  
**For Lease** 2,098-3,950 square feet  
**\$18.00 per square foot, modified gross**



### 7100 S. Beneva Road, Sarasota County

This 8,220-square-foot building represents an ideal income-producing opportunity with potential upside! Roughly 4,431 square feet of space is leased to Help at Home, generating an annual NOI of \$77,469.96. Snap this up before someone else does. Zoned OPI. – **\$1,520,700**  
**For Lease** 3,812 RSF with private parking,  
**\$13 per rentable square foot, NNN**



**Harshman & Company Available Properties**



**1245 and 1265 5th St., Sarasota**  
1245=5,250 square feet - 1265=10,500 square feet, zoned DTE, current use residential.  
**\$1,050,000 and \$2,100,000**



**1509 Main St., Sarasota**  
2,500-square-foot, two-tenant storefront, zoned DTC, short-term leases in effect.  
**\$1,280,000**



**1490 Boulevard of the Arts, Sarasota**  
19,000-square-foot retail/flex building, zoned DTE.  
**\$3,200,000**



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



**East Avenue and Audubon Place, Sarasota**  
1.68 acres (73,305 square feet), zoned DTC. Zoning allows for 84 units.  
**\$2,600,000**



**1716 N. Tamiami Trail, Sarasota**  
Nearly 1 acre (40,880 square feet), zoned NT. Zoning allows for 35 units per acre.  
**\$1,226,400**



**2090 S. Tamiami Trail, Osprey**  
1.81 acres (78,863 square feet) of vacant land, zoned RMF-2.  
**\$1,440,000**



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



**North Port Park of Commerce, North Port**  
7 lots ranging from 1.25 acres to 2.15 acres, zoned PCD.  
**\$260,000 to \$675,000 per lot, or \$4.78 to \$7.22 a square foot**



**5750 S. Tamiami Trail, Sarasota**  
1,300 square feet of retail space, zoned CG, with parking.  
**\$23 per square foot, NNN**



**27 N. Pineapple Ave., Sarasota**  
2,250 square feet of retail space, adjacent to Sarasota Opera House, 18-foot-clear ceilings.  
**\$29 per square foot, NNN**



**8598 Potter Park Dr., Sarasota County**  
8,250 square feet, divisible, zoned OPI.  
**\$24.00 per square foot, modified gross**

## Best Landlord Practices

I was fortunate to have Ron Spector as a landlord when I first started my business in 1989. I learned from him that tenants were valuable and need to be cared for with exemplary customer service. This dictum has served me well in managing properties, as well, for nearly the past three decades. For instance, if something breaks in a unit, or water intrudes after a heavy rain, it is incumbent upon a landlord or property manager to respond quickly and make every effort to correct the problem as soon

as possible. Remember, your tenants are your life's blood – not just a rent check – so treat them well.

## Down the Pike

Despite the tremendous number of new residential projects and units coming online or nearing completion, new developments are being announced. At Ringling Shopping Center, a developer is touting a plan for 225 new condominiums or apartments, while at 10th Street and Florida Avenue, in the city's Rosemary District, plans are being formulated

to add 72 mid-priced condo units. Time will tell if either is able to obtain financing for new product at this point in this real estate cycle. At the same time, new retail and entertainment offerings at Westfield Corp.'s Southgate Mall and Benderson Development Co.'s Landings Shopping Center are taking shape. Both redevelopments have been long awaited and will be welcome additions to the area. As the two retail districts enjoy some of the strongest demographics in Sarasota, if properly managed they should be tremendously successful and stimulate the areas around them.

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## Recent Notable Commercial Transactions

- **Golden Coast of Sarasota LLC** leased approximately 7,600 square feet of office space at 27 N. Pineapple Ave., Unit A-2, to **Buyer Hero LLC, doing business as Offrs.com**, on 10/14/16.
- **Michael C. Speth** leased 4370 S. Tamiami Trail, Suite 150, from **Strathmore Building 4 LLC** on 11/1/16.
- **Performing Properties II LLC** purchased a 2,436-square-foot building at 1234 First St. from **Guy W. Peterson and Cynthia V. Peterson** for \$1,000,000 on 1/10/17.
- **Culverhouse Limited Partnership** leased 1,400 square feet of office space at 6561 Palmer Park Circle, Suite C, to **Samuel L. Cione, Integrity Wealth Management**, on 3/30/17.
- A 1,100-square-foot office condominium at 1620 Main St., Unit 10, was purchased by **Munda Interiors LLC** from **Burton L. Rudman** on 3/21/17 for \$110,000.
- A retail strip center known as Phillippi Plaza, at 5750 S. Tamiami Trail, was purchased by **Classic Ocean Investments Inc.** from **Sarasota Outdoor Properties LLC** on 4/17/17 for \$1,625,000.
- 1415 Myrtle St., comprised of 49,579 square feet of land, was purchased by **Seminole Gulf Railway LP** from the **Raymond J. McCarthy Trust** for \$261,000 on 4/28/17.

## Transaction Process

Over time the transaction process has gained in complexity, as has the development approval process in the city of Sarasota. The city's recent tree ordinance stands as a good example of a well-intended law that has had unintended consequences, slowing the development approval process and impeding people's rights to develop their property. To its credit, the city is reviewing the existing tree ordinance, which could result in benefits for the community and a more workable process in the rare instances that trees must be removed during development.