

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

Spring, 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.

## Want to Make a Small Fortune?

An old adage on how to make a small fortune? – start with a large one and become a real estate developer. Obviously, this statement is intended to be tongue-in-cheek, as some developers are extraordinarily successful; the point is that real estate development is one of the riskiest professional endeavors that can be undertaken, save for the work of active military personnel and law enforcement officials. Having made a three decades-long career of finding deals for developers and representing property owners selling to developers, I've learned certain ironclad truths about real estate development. The hazards are often unnoticed and can be devastating. One critical mistake early in the process and a project will suffer through completion and beyond. Unanticipated delays can wreak havoc with economic projections and the same strong ego that makes a developer successful will blind him to errors or miscalculations.

Successful developers do all the research, seek expert counsel and still may need a bit of luck in avoiding unexpected market turns or governmental regulations. So, while development can be financially rewarding if one's timing and location are precise, it can also be a recipe for economic disaster and is certainly not for the weak at heart.

## Downtown Residential Development Insights

Supply and demand rules real estate. Understanding product demand in any given submarket and timing the supply curve are equally critical for successful real estate developments. Just as important, however, is appropriate pricing. In Sarasota, pricing parameters have remained fairly consistent for some time. Projects with residential units priced at or under \$800,000 have a better chance of success. Especially downtown, condominiums initially tend to be priced \$400 to \$600 per square foot, with that figure edging slightly up or down based on location, unit placement within a building, timing, amenity packages and other factors. As a general rule, whenever a downtown condo price point exceeds \$800,000, the overall pool of potential buyers dwindles, according to historical data Harshman & Co. has compiled for two decades. Developments with residential units that exceed the \$800,000 threshold must offer enhanced amenities or provide superior location or views to generate sales, experience shows.

## State of the (Office) Market

Downtown's Class A office vacancy stands at 15.3%, with the available space at 17%. This unacceptable high vacancy is the result of some significant new vacancies – most notably the former Herald-Tribune building, at 1741 Main St.; a full floor at Five Points Plaza; and the soon-to-be vacant top floor at Ringling Square. One positive trend, though, are sales: Four major downtown buildings have sold within the last two-plus-years, despite a marked change in office use since the Great Recession. While some businesses continue to need office space, technological improvements and morphing sociological norms are combining to reduce overall footprints, as virtual offices and electronic business evolve obviating bricks and mortar. Banking has had the most obvious evolution, as large lobbies are a luxury of the past and their office space continues to be streamlined. Looking forward, the new residents coming to downtown should result in some increased demand for office space. The question remains whether that demand will be enough to bring vacancies back to the 3%-5% level that Sarasota experienced in the 1990s.



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## Down The Pike

The current darling of the Sarasota apartment market is One Palm, a 139-unit complex that was completed in 2016 on a vacant tract at Ringling Boulevard and Palm Avenue downtown. There's good reason for the project to be lauded. Of all the apartment projects downtown that have been planned or constructed since 2012, One Palm has arguably the best location – in the heart of Sarasota's commercial core and within easy walking distance to shops, restaurants, churches and civic amenities. It was also the first of more than a dozen projects to be completed, which meant it was best able to tap into pent-up market demand. Today, its apartments are fully occupied and a lengthy waiting list is growing. One Palm also has achieved rental rates not previously seen in Sarasota, at or above \$2 per square foot. The newly completed initial 228-unit phase of the Cityside apartments, in the burgeoning Rosemary District just north of Fruitville Road and downtown, also is setting lease-up records at solid rental rates. Project developer Rosalyn Holdings is bullish on Cityside prospects and has filed plans to develop the 261-unit phase II. Hundreds of new units are scheduled to come to market by the end of this year, in projects that have pro forma rental rates of roughly \$2 per square foot or above. Carter

Communities' 180-unit complex on Second Street; Framework Group's 228-unit Urban Flats project, on Fruitville Road at the former Hibbs Farm & Garden site; and Greystar's 286-unit Elan Rosemary will be carefully scrutinized to determine whether the anticipated demand is as strong as many contend among young professionals, empty-nest baby boomers and retirees alike. Most recently, 222 apartment units have been proposed for the Ringling Shopping Center site. If built, the rental units would pioneer as the first development constructed east of U.S. 301 in years, save the townhouse project under construction. Time will tell if the Payne Park site will attract renters at the relatively high rental rates the land price would suggest are needed for financial viability.

## Not Every Project is a Home Run

In 2009, during the height of the Great Recession, a local developer purchased a two-acre site on Ringling Boulevard zoned DTC (50 units per acre) for \$1.5 million, a fraction of the amount the land had traded for just a few years earlier. Subsequently, a 39-unit townhouse development called Q was constructed, one of the first new projects completed during this cycle's recovery phase. According to marketing materials, 11 units remain unsold, a relatively large number considering its location, proximity

to downtown and Laurel Park, and its price point. Hopefully sales have picked up in recent weeks and the number of units remaining has shrunk.

## Still Hot – South Tamiami Trail

Tamiami Trail, from Bahia Vista Street to Vamo Road, remains a focus of buyers and developers. The obvious attraction of 50,000-plus vehicles per day, coupled with tremendous demographics, have kept this area in a sweet spot for buyers. Benderson Development Co.'s late January acquisition of the Landings Shopping Center – along with the addition of new restaurants such as Da Ru Ma and Station 400 coming this summer – and its planned development at Stickney Point Road and U.S. 41 bode well for the future. Benderson is a proven developer with a track record of success. Several sites along U.S. 41 have sold for redevelopment; two for self-storage facilities. One is adjacent to the former Kalin's Furniture store and the other is just a mile north at Sandrala Drive and U.S. 41. Additionally, a 39,000-square-foot parcel at Oak Terrace was purchased recently for \$1,910,000 for redevelopment and Phillippi Plaza, a commercial condominium, was acquired for \$1,625,000. Square One Burger, a single-tenant property with a long-term lease, was purchased by out-of-state investors for an approximately 7.25 Cap Rate.

## Featured Properties

### 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 – **\$565,000**



### 1509 Main St. – Zoned DTC

A two-tenant storefront in the heart of Sarasota's vibrant downtown. Short-term leases in effect; 2,500 square feet – **\$1,280,000**



### 1490 Boulevard of the Arts – Zoned DTE

19,000-square-foot retail/flex building in the heart of the City of Sarasota's burgeoning Rosemary District, with a tremendous opportunity to increase income – **\$3,200,000**



## Harshman & Company Available Properties



**500-900 3rd Ave. West, Bradenton**  
**UNDER CONTRACT**  
 1.18 acres (51,253 square feet), zoned T6 Urban Core in the City of Bradenton.  
**\$870,000**



**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**



**1401 S. Tamiami Trail, Osprey**  
 1.46 acres (63,597 square feet) of vacant land, zoned CG.  
**\$699,457**



**South 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**



**2080 Ringling Blvd, Sarasota**  
 7,493 square feet of land improved with a 10,587 square-foot, three-story office building, Zoned DTC. **Price: \$1,950,000**

**2080 Ringling Blvd., Sarasota**  
 For Lease 2,098-3,950 square feet  
**\$18.00 per square foot, modified gross**



**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**



**7100 S. Beneva Road, Sarasota County**  
 3,812 rentable square feet with private parking, zoned OPI.  
**\$13 per rentable square foot, NNN**



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

## RROD Update

Arguably the most successful example of economic and community development in Sarasota in recent years has been the 75-unit per acre Rosemary Overlay District. The beauty of this incentive is that it cost the taxpayer ZERO and will pay dividends for years to come in increased sales tax and ad valorem tax revenue – not to mention the

vitality the hundreds of new residential units that have been added since the district's introduction are adding to the city. Testament to its success is the fact that the allowable density bonus is almost fully allocated. Of the maximum of 1,775 bonus units available, 1,278 have been allocated with another 271 in process, totaling 1,549. The city is scheduled to decide soon whether to continue or sunset the provision. I vote continuation!

## Proof Leased Investments are in Demand

This spring, Harshman & Company, Inc. listed a fully leased five-unit retail center at 5750 S. Tamiami Trail. The property was under contract just two days after listing and its sale closed 60 days later. If you have income-producing property you have been thinking about selling – call us for a valuation.



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### Recent Notable Commercial Transactions

- **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.
- 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.
- **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.
- **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.