

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

3rd Quarter, 2023

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State of the Market

This is the first Market Update in several years that tosses some shade on the forecast for the Sarasota commercial real estate market. Well, maybe only a cloud or two. High interest rates impact all business activity, and the increasing rates are taking a toll on real estate as mortgage rates are 3-times what they were 3-years ago, and lending practices are more stringent. Cap Rates are increasing, driving investment real estate prices down, often discouraging would-be sellers to wait this out for better pricing. Unfortunately, it appears that high interest rates are here to stay and only a change in leadership or leadership policy will address a most debilitating component of our business climate. On the sunny side, Florida real estate is continually buoyed by population increases. Florida has missed some of the downturn only because increased

population equals increased demand alleviating some of the pain.

Down the Pike

In downtown Sarasota there are two significant projects that are dealing with permitting and legal issues. One Park Sarasota (part of the former Quay site) is entrenched in a protracted legal battle with the Ritz-Carlton Condominium; and the Obsidian (on Palm Ave) is facing obstreperous permitting objections from Palm Avenue condo residents and is appealing a Planning Board denial. Sarasota is not new to protracted and sometimes nasty legal and political battles over development – in fact the history of battling development goes back to early 1900's. One side will be happy and one sad based on the outcome of these two clashes but in our opinion the fight will fade into Sarasota's colorful history and the new developments or lack of new

developments will not impact the community. Sarasota County continues to grow east, north and south. North Port long ago captured the accolade of Sarasota's

largest city and now the Venice area is competing with more homes, apartments, services and a hospital. Developers and investors have been looking south and as the demographics increase the secondary tier of service provides look to our area when the demographics reach critical points. Lakewood Ranch is effectively extending to Fruitville Road east of I-75 expanding the "new" city that Lakewood has become. High rental rates and increased demand keep Lakewood and surrounding commercial real estate humming.



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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.crex.com

Two Recent Downtown Sales Analyzed

Two high-profile downtown properties, 1390 Main St and 300 S Orange Ave, sold earlier this year, and both mark the transfer of key downtown properties that have been under the same use for decades and now look to add more fuel to the development fires of downtown. The property on S Orange Ave is zoned DTC and on Main St is zoned DTB. Both are entitled for office, retail, hotel and residential to 50-units per acre or 200-units per acre provided 15% of the bonus units (exceeding 50-units per acre) are “affordable”, but no one really expects either of these premier sites as affordable housing candidates therefore 50-units per acre will govern. The only difference in zoning is Orange Ave is 10-stories and Main St is 18-stories. The Main St property is 1.07 acres and sold for \$24,000,000. The S. Orange Ave site is 3.30 acres and sold for \$32,000,000. Wow right – a closer look reveals that at 50-units per acre the Main St property sold for \$452,830 per residential unit and the S. Orange Ave property sold for \$194,000 per unit. It is anticipated that the final development of both properties will include a hotel, some ground level retail/office and the ubiquitous economic driver – luxury condominiums. The unobstructed water views from upper floors and great downtown locations dictate high-end luxury condominium units selling \$1,000-\$2,000 per sq ft. Why did the Main St property sell for more than twice the per unit cost than the S Orange Ave site? The sophistication and patience of the sellers was a prime reason. The Main St seller knew the value of their site and held out for their price. After plans for a new office

building for the existing user crashed due to high construction cost, the Orange Ave owner seemed frustrated with the process and sold without putting the property on the active market – his loss. \$32,000,000 seems like a huge price unless it’s worth north of \$42,000,000. The moral to this story is – seek competent real estate advice and if that advice agrees it’s a good idea not to put your property on the market – get another opinion.

Industrial Lease Rates

After languishing for years in the \$8-\$10 per square foot rental rates – industrial properties are now \$15-\$20 per square foot. The better the location and higher quality of the building the higher the lease rate. At Harshman & Company we have been forecasting this step up in industrial lease rates – simply by observing the population increases and increased construction costs. We are pleased to report that the industrial sector is no longer the lost leader sector of commercial real estate. The winners are the owners of well-located older industrial buildings as their new rents are a windfall – new construction cash flows with the upgraded rental rates but still the profit margins are slim for new construction.

Lending and Commercial Real Estate

The dramatic infusion of population and new commercial real estate buyers due to other states reactions to covid and crime prevention somewhat assuaged the impact of constantly increasing interest rates. No more! Even with the steady supply of cash buyers high interest rates are taking a toll. Now commercial lending rates are in the 7% - 8% range and borrowers and sellers are feeling

the squeeze caused by interest rates 3-times what they were 2 years ago. Additionally, lenders are forecasting caution about lending on some products such as office and big box retail. Medical buildings remain a target for lenders as the aging population always will need medical uses. This is part of the undulation of lending market forecasting future conditions. Lenders know all too well that real estate is not a liquid commodity notwithstanding the “flipping” that occurred in the recent past.

Frontage Remains in High Demand

Looking to invest in commercial real estate, the competition for properties located on most of our major roadways is intense. Frontage properties are being purchased often by national and regional retailers, restaurant and service businesses flocking our area as demographics have eclipsed key benchmarks. Harshman & Company recently represented two different sellers in the sale of two CG zoned properties on US 41 south of Stickney Pt Rd. One of the properties received five offers and sold for more than list price. The other receive two offers and sold for more than list price. South Trail real estate had lost some of its luster with the shuttering of many Sarasota Square Mall businesses. However, increased population, anticipation of redevelopment of Sarasota Square Mall and the Siesta Promenade development by Benderson at US 41 and Stickney Pt. has invigorated this stretch of commercial real estate. Property owners are pleased.

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. This property will not last long on the market. **For sale at \$3,800,000.**



930 N Beneva Rd., Sarasota

7.5 acres on N Beneva Road zoned RMF-1 in the City of Sarasota permits 6-units per acre and the owner will agree to time for a buyer to process a rezone for 13-units per acre. Beautifully treed with 475 feet on N Beneva Rd., this property presents many possibilities for town homes or villa developments. **SALE PENDING**



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.**



3231 Gulf Gate Dr., Sarasota

Perfect for your medical, dental or professional office business, this 2-story suburban office building offers an excellent South of Clark Road location, extra parking and distinct visibility. The 2nd floor has a total of 3,957 RSF with the potential for 3 offices of 1,000 sf, 1,000 sf and 1,957 sf. **At \$17 NNN with \$6.20 CAM** these offices will not last.

Slow Summer

Sarasota experienced one of the slowest summers for tourism. Restaurants, bars, hotels and retail establishments suffered, and the lack of pedestrian traffic clouded otherwise high traffic areas. Granted the heavy tourist seasons Florida

experienced during Covid-19 when many states closed was an outlier and not sustainable. This year we experienced the pendulum of tourism swing to the other side with the opening of all states, Europe and other foreign travel destinations. Couple that with high priced gas and record

heat throughout the south and we had the ingredients for a significant slowdown and businesses suffered. Several prognostications tell of a cool winter this year which should force snowbirds and tourist to warm states like Florida and Texas. Hope they are right.



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Recent Notable Commercial Transactions

- **Toale Brothers, Inc.** sold two buildings totaling 5,648-square-foot on two parcels totaling 43,748-square-feet of land located at 6903 S Tamiami Trail and 2118 Reynolds Street to **Tommy's Express Holdings, Inc.** for \$2,300,000 on 9/22/23.
- **Culverhouse Limited Partnership** leased 6,000-square-foot +/- office space at 6561 Palmer Park Circle to **Respec Company, LLC** on 8/1/23.
- **The Loretta J Hopkins Trust** sold two buildings totaling 8,660-square-foot on 21,780-square-feet of land located at 7204-7216 S Tamiami Trail to **Revocable Living Trust of Constance Paoli Zacker** for \$1,260,000 on 9/15/23.
- **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.
- **Temple Beth Sholom and Jewish Center, Inc.** leased a 28,194-square-foot +/- building at 1050 S Tuttle Ave. to **Achievement Center of Southwest Florida, Inc.** on 8/1/23.
- **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.