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Harshman & Company, Inc.
COMMERCIAL REAL ESTATE BROKER

COMMERCIAL REAL ESTATE MARKET UPDATE

3rd Quarter, 2024

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State of the Market

The Sarasota commercial real estate market has exhibited a noticeable deceleration compared to the vigorous activity seen in 2020-2022; however, it has not come to a halt or regressed. Our market is being driven by three primary forces. Firstly, Florida's seemingly relentless population growth, primarily driven by inward migration from New York, California, and Illinois, continues to fuel residential development, particularly in the multi-family apartment segment. This population surge also has a positive ripple effect on other sectors, including retail, dining, and businesses, as they benefit from the increased consumer base. Nevertheless, heightened migration has tapered off to slightly fewer than 1,000 new residents per day.

Secondly, the impact of interest rates cannot be overlooked. Those who secured commercial real estate loans 3-8 years ago did so at interest rates of 2%-3.5%; today, commercial rates hover around 7%, marking a substantial increase. Many borrowers with adjustable mortgages are now facing adjustments to current rates at 7% and above, which poses significant financial challenges for investors and developers, hampering their ability to fund new ventures and manage existing projects. The swift escalation of rates from 3.5% in 2022 to the current 7%+ has added immense pressure.

Thirdly, the specter of inflation looms large. Inflation triggered by government expenditures, combined with exorbitant energy costs, has resulted in price hikes across various sectors, including dining, groceries, apparel, fuel, and services. Unfortunately, wage growth has not kept pace with these rising costs. These factors—one positive and two opposing—have prevented our market from slipping into a real estate recession, but have restrained property appreciation.

The rental market displays relative stability even with the increased demand from population increase and soaring construction costs which push up rental rates for new apartments and commercial properties. Foreclosures are expected as commercial mortgages reset to higher rates, placing strain on owners who may struggle to meet the increased debt service. Though Florida may not witness the same volume of foreclosures as New York City, even a limited number of foreclosures will likely impact our marketplace.

Two Main St Sales

The property at 1801 Main St (aka 40 N Osprey) was sold in September 2023 for \$5,700,000, equating to \$183 per square foot. This site spans 31,140 square feet and comprises two structures primed for demolition. In contrast, 1703 Main St, a site of 18,744 square feet with two

structures ready for demolition, was sold in March 2022 for \$5,000,000, or \$267 per square foot. Both properties are zoned Downtown Core (DTC), boast approximately 100 feet of



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frontage on Main St, and are deemed excellent locations for hotel with condo development. The variation in sale price, with the first property selling for 31% more, can be attributed to the differing motivations of the sellers. While both were inclined to sell, one was impatient to sell and one was only willing to accept offers that met their price expectations.

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.

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Down the Pike

As noted, the rapid growth of the residential market has begun to decelerate. The journey has been remarkable but the anticipated market slowing is now a reality. Some of the more ambitious residential projects, such as the former Bath & Racquet and a luxury hotel and condo on Main Street, still have not broken ground. The former Williams Parker site is progressing through the planning stages. The determination is still pending regarding whether there will be a single developer or whether pads will be sold to multiple developers, like The Quay. Once developed, the Williams Parker site and the relatively under the radar US Garage project will transform the area south of Ringling Blvd.

Main Street east of Osprey Avenue is preparing for a new chapter as 400 apartments in two buildings, a grocery store, and other retail outlets are just about ready to open. Look for this project to enliven and redefine this segment of Main Street. There is discernible community fervor calling for “affordable housing,” and local governments are now venturing into the affordable housing business via public-private partnerships. Sarasota County, the School Board, and the City of Sarasota are all looking at sourcing affordable housing. The City’s latest initiative, spearheaded by the City Manager, entails the proposed acquisition of two properties on 1st St added to the existing City 1st St parking lot to create a site for two 12-story buildings delivering 192-unit apartments with rental caps aligned with the area’s average annual income. This project is noteworthy, albeit inherently challenging, and not suited for inexperienced individuals. Prudent caution is advised, given that numerous seasoned developers who let exuberance cloud reality that lead to costly oversights. Furthermore, we are witnessing a trend where some not-for-profit organizations are integrating residential units into their planned new developments to accommodate interns and staff. This development is promising and represents a commendable stride towards securing the long-term sustainability of not-for-profits, as it aids in retaining high-caliber employees and volunteers.

Tamiami Trail Revitalization

Tamiami Trail has undergone numerous transformations over the last five decades. The opening of I-75 from Tampa to Naples in the 1980s diverted traffic away from US 41 and US 301, adversely impacting many businesses that relied on through traffic, thereby initiating the decline of the historic Tampa to Miami Trail. Despite this, institutional anchors such as the University of South Florida (USF), New College, The Ringling, Ringling School of Art, Selby, the former Sarasota High School (now Ringling School), and Sarasota Memorial Hospital (SMH) have provided stability to Tamiami Trail. Even with solid anchors the infill properties never really took off. However now Tamiami Trail is reaping the benefits of the general growth of the West Coast as new businesses and multi-family residential projects replace vacant lots and dilapidated buildings. Notably, Benderson Development, a prominent Sarasota-based commercial development company, has acquired approximately 88 acres across ten parcels along the South Tamiami Trail, spanning from the old Southgate Mall to Vamo Road. While several of these sites have been fully developed, the majority consist of either vacant land or are earmarked for extensive redevelopment. Benderson’s confidence in Tamiami Trail properties will prove advantageous for Sarasota, as this developer maintains high standards, diligently manages its properties, and consistently delivers superior developments. This developer’s activities will drive up property values and enhance the retail landscape along the South Tamiami Trail.

Southgate Resurrection

In 2014, the rapid exodus of retailers from Southgate Mall to the new UTC mall surprised me. Fueling my perplexity is the fact that Southgate Mall is a tremendous location with convenient access to shoppers on Siesta, Bird, Lido, and Longboat Keys, as well as surrounding

neighborhoods that represent the strongest demographics in our market. The mass departure of retailers effectively turning the once vibrant Sarasota retail option into a memory was hard to witness. Over time, the surrounding demographics have only grown in income levels and population, particularly with the emergence of new downtown and suburban residential projects. Fortunately, there is renewed hope as the former owners of Southgate Mall defaulted on their loans, leading to its purchase by a reputable local developer. Plans for the redevelopment of the Mall, including residential, retail, and entertainment components, are underway, signaling the impending revival and ushering in an era that returns Southgate Mall to its glory of old.

A Message from 1990

During the 1990 recession, Ron Spector was the only private high-rise developer who did not face foreclosure of his office building downtown. Out of the 18 major projects downtown, 15 were foreclosed, subsequently becoming RTC government-owned properties. Northern Trust and Sun Trust, along with Ron Spector, emerged as the survivors. Ron Spector, a private home-grown attorney/developer, maintained ownership of his iconic red-brick 9-story office building amidst the most challenging commercial real estate period in 40 years. This commendable feat was attributed to Ron’s excellence as a landlord/property manager and his prioritization of tenants’ needs. His commitment to tenants was evident when many of Ron’s tenants remained loyal despite being offered lower rents in other buildings during that recession. However, in 2021, Ron’s family sold 1800 2nd St to a group from Miami, who are now facing foreclosure. The new owner is experiencing financial difficulties due to escalating interest rates, leading to the possibility of them walking away.

Featured Properties



1616 Oak Street, Sarasota

Infrequently does a fully upgraded and immaculately maintained 100-year-old historic building reach the marketplace. This 1,360 sq ft bungalow has upgraded electric, plumbing and completely refinished. The full kitchen and two bathrooms coupled with DTE zoning offers flexibility for a residence or live/work with office, retail and restaurant with parking for six vehicles. The Laurel Park neighborhood location is walking distance to just about everything! **Price \$999,000**



1330 and 1340 Central Avenue, Sarasota

Industrial on the edge of downtown! This unique property consists of two side by side buildings totaling 14,000 rentable sq ft. Constructed of concrete block and poured concrete cells and floors – this fully sprinklered, mostly air-conditioned industrial flex-space property is available for the opportunistic investor or user. With a little renovation this property will provide a great return for years to come. **SALE PENDING**



1586 Main Street, Sarasota

The trust company that has occupied this 1926 historic building for 17 years is vacating in December creating a signature location and building opportunity for some lucky business. This 2,200 sq ft building is available for lease.



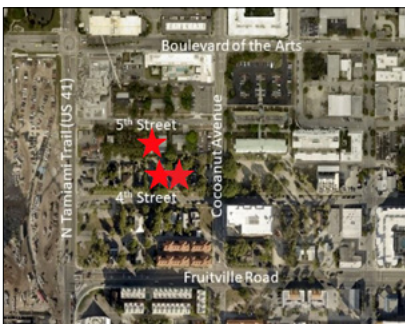
1751 Fruitville Road, Sarasota

Wow! 200 +/- feet of frontage on Fruitville Road at Osprey Avenue, zone DTE - fantastic development site think residential (up to 76 units with bonus), office, retail or restaurant. The added plus is income while planning a development as all units are rented with short lease terms. **For sale at \$4,080,000.**



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.**



1256 5th St., 1259 and 1271 4th St., Sarasota

Three parcels with residential structures. The two parcels on 4th Street are adjacent and the 5th Street parcel is non-contiguous. The structures are old, and the seller makes no warranty of condition. All three parcels are currently zoned Downtown Edge (DTE) but are eligible for rezoning to Downtown Core (DTC) within the City of Sarasota. Post-closing, and for a term through June 2025 the owner will retain possession of the properties as a "Sale Lease Back" for the sole purpose of providing housing for its artists. This neighborhood is poised for massive redevelopment with the Blvd Condominiums and Sarasota Modern Hotel both on Blvd of the Arts. **For sale at \$5,950,000 (\$283.33/square foot).**

Hot Area

The Lime Avenue area between Fruitville and 12th Street has historically been considered a tertiary location has recently garnered significant attention from longstanding Sarasota real estate investors. This surge in interest coincided as the downtown market expanded and the area's industrial and DTE zoning offers appealing entitlements. Although

the area's market activity has slowed in line with broader market trends, there is a strong belief that it will regain momentum as the market navigates through the current sluggish period.

Economic Development

Sarasota County is discontinuing its funding of the Economic Development Council. This prompts contemplation on

whether the City should follow suit. The central dilemma revolves around the need to fund City staff to attempt to attract businesses to Sarasota in light of the fact that Sarasota is on the international places to locate radar. The debate centers on the allocation of tax dollars to promote an effort that may be obsolete. Sarasota County is opting against such allocation

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Recent Notable Commercial Transactions

- **Monday Morning Corporation** leased 3,660-square-foot +/- office space at 1561 Main Street to **United Community Bank** beginning 9/1/24.
- **The Loretta J Hopkins Trust** sold two buildings totaling 8,660-square-foot on 21,780-square-foot 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.
- **Floor Doctor, Inc.** sold the 3,711-square-foot Industrial building located at 2490 12th Street to **William A Martell III** for \$945,000 on 2/15/24.
- **Sarasota Opera Association, Inc.** leased a 19,000-square-foot +/- building at 1712 Biotech Way from **7201 15th Street LLC** for 10 years commencing on 8/1/23
- **Toale Brothers, Inc.** sold two buildings totaling 5,648-square-foot on two parcels totaling 43,748-square-foot 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.
- **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.