

# *harrisburg* highlights

Third Quarter 2011

A Publication of the Bill Gladstone Group of NAI CIR



## Market Update - Third Quarter

The market was fragmented.

The markets are somewhat stagnant. It has pretty much stayed the same as in the second quarter. Office and Big Box Warehouse (over 100,000 SF) leasing have slowed considerably from the first quarter. Land development plans are still very sporadic for commercial and industrial projects. Apartments and student housing (purchasing existing units or buying and building) are two opportunities that developers are still pushing hard at this time. However, location, the availability of public utilities and the density of units are the drivers as to what the developers will pay for any of these projects.

The major concern businesses have is the lack of confidence in the economy and the people in charge of it. If there is not a significant improvement in the Fourth Quarter, 2012 may be very similar to 2011 with negative absorption, in a variety of the sub-markets.

On a positive note, the fourth quarter has started with an upward trend as job creation has increased. If these jobs are due to seasonal work (for the holidays), then the fourth quarter of 2012 will fall flat. If these are permanent jobs, we would be off to a good start for 2012.

(Continued inside)



Commercial Real Estate Services, Worldwide.



Blue Beacon  
**Bought two truck stops, one in Harrisburg Route 39 & I-81 and the other in Carlisle as a package!**



7800 Linglestown Road,  
Harrisburg  
**Sold in 6 months!**



2845 Walnut Street,  
Penbrook  
**Sold in 6 months!**



115 E. Strawberry Alley,  
Mechanicsburg  
**Commercial garage/shop sold for \$235,000!**

*The above deals were handled by the Bill Gladstone Group of NAI CIR*

# Market Update

(Continued from cover)

## Office Market:

Urban – Net Absorption (20,000 - 25,000 SF), Vacancy 8-9%

**A Space Rental Rates:** \$17-\$21/SF asking, plus janitorial (not including medical space)

**B Space:** \$13-\$16/SF asking, plus janitorial

Most common concession: free rent outside the term

Suburban – Net Absorption (15,000 – 25,000 SF), Vacancy 10-11%

**A Space Rental Rates:** \$16.50-\$19/SF asking, plus janitorial (not including medical space)

**B Space:** \$13-\$16/SF plus janitorial

Most common concession: free rent outside the term

## Warehouse Market (over 100,000 SF):

**A and B Space:** Net Absorption 1,500,000+ SF, Vacancy 12-14%

**A Space Asking Rates:** \$3.75-\$4.25/SF NNN asking

**B Space:** \$3.00-\$3.75/SF NNN asking

Concessions: free rent

## Retail/Commercial:

**A Space** (anchored shopping centers): \$15-\$16+/SF NNN asking (down from \$20+/SF NNN)

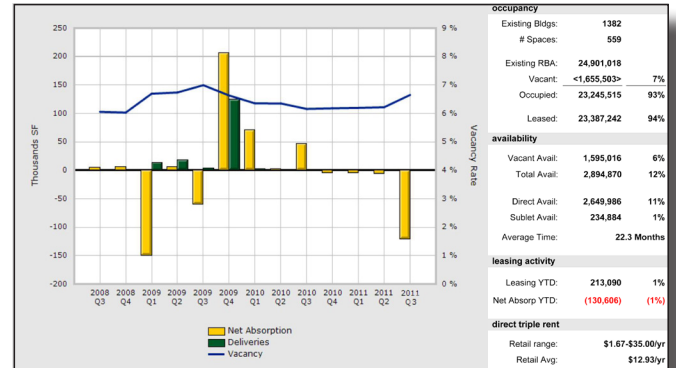
**B Space** (small strip center with no anchor): \$10-\$13+ SF NNN asking  
Concessions: 2-4 months free rent

## Flex Space:

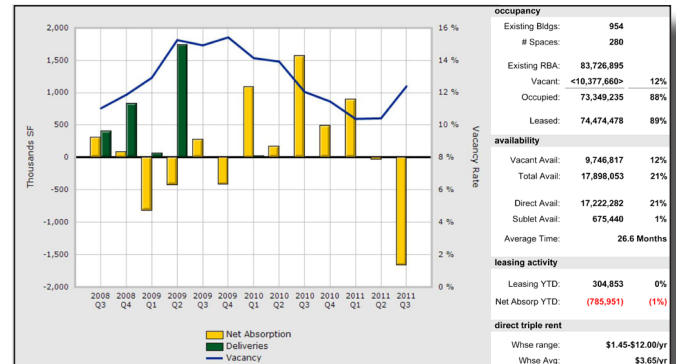
**A Space:** \$8-\$10/SF NNN Blended, office and warehouse together

**B Space:** \$5-\$7.50/SF NNN Blended, office and warehouse together

## Absorption, Deliveries and Vacancy - Commercial Dauphin & Cumberland Counties



## Absorption, Deliveries and Vacancy - Industrial/Warehouse Dauphin & Cumberland Counties



# Q & A

## Appraised Value In Today's Market

**Q:** You have identical 10,000 SF commercial buildings on two different corners of the same intersection. They have identical ten-year leases, one that started in 2007 and one that started in 2011. They both have credit tenants, The net rental rate for the lease that started in 2007 was \$16/SF NNN with a 15% increase after the first 5 years. The net rental rate for the lease that started in 2011 was \$11/SF with a 10% increase after year 5.

**How do the variables of rent, rent growth, and changing return expectations impact value?**

**A:** The primary change between 2007 and 2011 has been the expectation for appreciation. Investors now have less faith in value growth, and as a result are requiring a stronger cash return. The expectation for higher equity dividends has resulted in increased capitalization rates and a decline in value for many property types. The key point to recognize is that the 2007 peak resulted from atypical growth expectations, and that the broad range of investment parameters are now returning to long-term historical norms.

**Q:** **What can I do as a property owner, to enhance my property, whether it is an investment property or I use it myself prior to getting it appraised?**

**A:** Deferred maintenance immediately springs to mind, as this diminishes tenant appeal, detracts from the neighborhood, and gives the impression of a shorter remaining economic life (which impacts financing and the capitalization rate). In the end, property values are enhanced primarily through capital and effort.

**Q:** **Why is it that the appraised value is sometimes different than what the property can be sold for in the current market?**

**A:** The data that appraisers rely on necessarily reflects transactions that have already occurred. While it is prudent to review current listings as well as closed transactions, the result is that appraisals run the risk of being a trailing indicator, particularly in markets with rapidly changing dynamics. ■

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### About the Author:



Over the last 25 years Mark Shonberg has performed a wide variety of appraisal services across the spectrum of property types. The majority of his work has been for finance and asset management, although a significant portion has been oriented toward tax appeal, bankruptcy and eminent domain. Since 1993 Mr. Shonberg has specialized in affordable housing issues, with several hundred assignments completed relating to Low Income Housing Tax Credits, HUD, and Rural Development programs. Other valuation experience includes office towers, regional malls, hotels, and special purpose properties.

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# Case Study

## Blue Beacon

Identified site: October 29, 2010

Settled: July 2011



### Challenge:

Blue Beacon needed to relocate quickly because their lease would expire in February 2012. Timing the process was difficult because our client was located in Kansas City, MO, not familiar with the Harrisburg/Carlisle area, and needed a new location identified quickly with construction underway by October, 2011.

### Solution:

The Bill Gladstone Group of NAI CIR helped obtain Land Development Plan Approvals and kept an eye on the entire acquisition process. Bill attended all meetings and assisted in obtaining the proper permits from PennDot and PADEP.

The Group worked with Mark Carpenter, the Zoning Officer, the Supervisors, the Planning Commission members, and the Environmental Engineers, Mike Beardsley and Brad Wolf of BL Companies. Blue Beacon hired attorney, Ron Lucas of Stevens and Lee to manage deadlines for final approval of our Land Development Plans and all associated permits. The Group also worked with Jim Snyder, Civil Engineer and principal of Snyder Secary & Associates, LLC. They worked continuously making sure all deadlines in the contract were met in obtaining Land Development Approval.

### End Result:

Blue Beacon bought two truck stops in Harrisburg (Route 39 & I-81) and Carlisle, PA as a package but didn't need the truck stop in Harrisburg. They were forced into it by the lender based in Seattle, WA. The lender did not want to own a single truck stop in PA but they bought it regardless and our Group represented them in selling it. As a result, they relocated their Carlisle property in time. Even with people located in several areas of The United States, the process moved quickly with everyone working together. ■

# Bill Gladstone Group of NAI CIR



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