

July 2019

HARRISBURG COMMERCIAL

# real estate REPORT

## Fitting Plans for the Future

Prepare for Three New FASB Standards for Revenues, Leases, and Loan Impairments.

By Angela Newell



For many public companies, 2018 to 2020 may be the three most disruptive years in history for financial statements, while private companies have a one-year reprieve. Three new accounting standards with wide-ranging consequences are taking effect: revenue from contracts with customers, lease accounting, and current expected credit losses.

These three new standards issued by the Financial Accounting Standards Board may require

substantial implementation efforts from corporate accounting and finance departments. Companies also shouldn't underestimate the new standards' impact on their broader business.

### Revenue Recognition

The first standard that went into effect is ASC 606, Revenue from Contracts with Customers, which was effective for most public companies in 2018 and took effect this year for private companies. The new revenue standard provides a comprehensive framework for most types of revenue accounting, with certain exceptions including leasing income; interest income from loans and other financial instruments; and insurance premiums - all of which are governed by other accounting rules.

For most companies, adoption of the new revenue standard includes a significant effort to assess its provisions and how they apply to the company's contracts. In many cases, however, the new guidance does not significantly change the timing and pattern of recognition. The new standard aims to provide a one-size-fits-all framework that can be applied by any company.

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## New Listings



1,282 SF

### Commercial Lease - 418 Market Street, Lemoyne

- Highly visible location in Lemoyne
- Store front windows and off-street parking
- Open floorplan will allow for a variety of uses



8,004 SF

### Commercial Sale - 3985 N. Second Street, Harrisburg

- Susquehanna Township house of worship and adjacent parsonage for sale
- The religious facility contains 6,300+/- SF with a 150+ seat capacity sanctuary, four offices, a restroom and an elevator
- The finished lower level contains a kitchen, classrooms and fellowship area
- Property also features a three-bedroom parsonage, large land area and a pavilion with a kitchen



5,584 SF

### Commercial Sale - 5 N. 25th Street, Harrisburg

- Multipurpose church and attached parsonage
- The sanctuary holds approximately 140 people and features an altar, pews and stained glass windows
- Church building also features offices, classrooms, nursery, and restrooms
- The finished lower level features a large open gathering/dining area, a kitchen, restrooms, and classroom space



13,190 SF

### Commercial Sale - 6484 Carlisle Pike, Mechanicsburg

- Move-in ready retail space for sale
- Former furniture store located along the heavily traveled Carlisle Pike
- This one-story building features a large, open showroom and small office and warehouse area



5,436 SF

### Commercial Sale - 905 E. Chocolate Avenue, Hershey

- 15 unit Travel Inn ideally located off E. Chocolate Avenue with excellent roadside visibility and moments from Hershey attractions
- This facility is made up of 2 buildings consisting of 10 exterior guest rooms, 5 apartments and a spacious on-site manager's suite with three bedrooms, living area and kitchen
- The Hershey Travel Inn has been renovated over the years and also has solid revenue history for many years



680 - 4,260 SF

### Office Sublease - 1801 Oberlin Road, Suites 302, 303, 304, Middletown

- Great office setup in this charming three-story stone structure with professional office tenants
- Suites are approximately 4,260 SF and feature reception/waiting area, private offices with good views, a conference room, break room and in-suite restroom
- Convenient access to both Harrisburg and Lancaster



But one size rarely fits all, and many companies have struggled with applying the new concepts. For example, land and real estate developers historically have accounted for their projects using the percentage of completion method, which allows them to recognize revenues in proportion to their costs during a project. While the new revenue standard retains the PoC method (now called overtime recognition), it introduces new required criteria. Some developers are finding that their contracts don't meet those standards. As a result, they must defer revenue recognition until the project is completed and delivered to the customer.

For many companies, the new standard's biggest impact is the addition of lengthy new disclosures. Specifically, the standard requires new footnote disclosures that describe in detail the nature and timing of revenue streams, including whether revenues are generated under long- or short-term contracts; whether the revenues are earned 1) over time as services or goods are provided or manufactured or 2) at the point in time when services or goods are delivered; and how the timing of recognition of revenue differs from the timing of cash receipts.

**"For many companies, the new standard's biggest impact is the addition of lengthy new disclosures."**

### Lease Accounting

The second new standard to go into effect is ASC 842, Leases, which is effective for most public companies this year and in 2020 for private companies. Under prior guidance, all leases were classified by the lessee as either operating or capital. Operating leases enjoyed off-balance sheet treatment, meaning that no liability was recognized for future lease payments, while capital leases were treated as if the asset had been purchased with a loan, with recognition of an asset and a liability.

With the new lease standard, FASB requires lessees to recognize almost all leases on the balance sheet, profoundly impacting many lessees. Under the new rules, lessees recognize a right-of-use asset representing the benefit they receive from the ability to use the leased asset, plus a lease liability representing the present value of the future lease payments they are obligated to make. While the impact from applying the new guidance to shorter-term leases may be minor, the result of recognizing future lease payments related to longer-term commercial leases, even on a discounted basis, is likely to create large new assets and liabilities.

While the most impacted industries are those that rely heavily on leasing, such as restaurants and retailers, very few companies are immune. The new standard applies to all lease arrangements, not just those of commercial real estate. For example, leases of equipment are also in scope, as well as those of vehicles and most other physical assets. Even leased copy machines and corporate cars fall under the new standard.

In fact, an agreement doesn't have to be called a lease to be in the scope of the new standard. The rules also apply to embedded leases, or arrangements to use equipment or other assets as part of a larger agreement, usually a service arrangement. For example, if your contract with a security service provider includes cameras and other monitoring equipment, it might be considered an embedded lease under the new standard that you must recognize on your balance sheet.

Adopting the new standard requires an orchestrated effort across the organization to identify and gather information about all contracts. This exercise can be difficult if contracts are not

(Continued on page 4)

## Commercial Listings



### Lease - 415 Market Street, Harrisburg

- First floor space available in the Harrisburg Transportation Center in Downtown Harrisburg
- Within walking distance to all the downtown restaurants, amenities, and Riverfront Park



### Lease - 5129 E. Trindle Road, Mechanicsburg

- Brand new retail or office space along Trindle Road
- Great visibility and parking
- The 4,000+/- SF is an open shell - ready for your finishing touches



### Lease - 611 N. 12th Street, Lebanon

- Join Save-A-Lot grocery store in this newly constructed shopping center located in Lebanon City
- Tenants can acquire one suite (25' x 64') or all five up to 8,000+/- SF for retail or office use
- The vanilla shell is ready for your finishing touches



### Lease - 665 Market Street, Lemoyne

- Join Classic Drycleaners at this desirable commercial location
- Open floorplan allows for good retail space
- Business ID sign available along Market Street

(Featured article...Continued from page 3)

managed centrally, and it may require polling your operations teams to understand what agreements are in place.

Once a company has identified all its leases, the next challenge is calculating the amounts to be recognized on the balance sheet and then accounting for their impact on expenses and net income. While companies with a few relatively simple leases may manage this process on their own, many will require a lease accounting system to ensure accurate and complete financials. This is especially true of public companies required to comply with the internal control provisions of Section 404 of the Sarbanes-Oxley Act. A new system not only increases cost and complexity, it lengthens the implementation timeline.

The new standard also may have implications beyond the balance sheet. For example, many debt covenants treat lease liabilities as additional debt. Companies should revisit their loan agreements and be proactive in explaining the new standard's impact to lenders to minimize disruption to treasury operations.

**"For example, many debt covenants treat lease liabilities as additional debt. Companies should revisit their loan agreements and be proactive in explaining the new standard's impact to lenders to minimize disruption to treasury operations."**

This is also the time for companies to review their leasing strategies. Shorter-term leases with multiple renewal options may be more attractive under the new standard, because the impact to the balance sheet may be reduced. On the flip side, for companies that have historically entered longer-term leases, the adoption of the new standard is an opportunity to lock in the use of the asset for even longer to achieve preferential expense treatment. Although all leases will go on a balance sheet under the new standard, it does retain the operating versus capital (now called financing) lease classifications to determine income statement and cash flow statement presentation. Operating lease payments will continue to be reported as operating expenses and cash flows from operations. Payments associated with a financing lease will be reported outside of earnings before interest, tax, depreciation, and amortization - known as EBITDA. Extending already longer-term leases to result in financing lease classification won't significantly change the impact to the balance sheet, but it could reduce operating expenses and increase reported EBITDA.

The new standard aims to provide a one-size-fits-all framework that can be applied by any company. But one size rarely fits all.

Lessors are impacted as well. In addition to changing priorities and strategies from lessees, lessors must consider relatively minor changes to their accounting model, which aims to align lessor accounting with revenue accounting under ASC 606. A more significant change for lessors is that they are now subject to sale-leaseback and build-to-suit guidance. In the past, lessees had to consider very detailed and punitive accounting rules on recognition of an asset on their books in a build-to-suit arrangement and when they could derecognize an asset sold in a sale-leaseback transaction, but lessors were exempt from those rules. The new leasing standard eliminates much of the complexity of those rules, but they now apply to both lessee and lessor. Going forward, lessors could end up accounting for an

(Continued on page 5)

## Commercial Listings



### Sale - 7200 Derry Street, Harrisburg

- Freestanding commercial building with good visibility along Derry Street
- The former AMVETS property could be outfitted to suit a variety of users - restaurants, retail or office users
- Excellent on-site parking with two access points from Derry Street



### Sale - 5 N. Market Street, Duncannon

- Prime retail/commercial space in the Borough of Duncannon
- Former bank boasts a notable exterior facade and a clean, functional interior with vault
- Call for additional details and to schedule a tour

## Industrial Listing



### Lease - 151 Allendale Road, Mechanicsburg

- Hard to find, completely updated warehouse space available
- Tenant's suite features frontage along Simpson Ferry Road, vanilla shell office space, ready to be built-out and a warehouse with 14'6" clear ceilings, two drive-in's (12' x 12'), sprinklers, new LED lighting, and a dock could also be added if needed
- Convenient access to Route 15, Route 581, and I-81

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(Featured article...Continued from page 4)

asset acquired in a sale-leaseback as a receivable, as if they were a bank providing a mortgage to the seller-lessee.

New disclosures are required, too, including footnote disclosure of the nature and types of leasing arrangements, as well as the type, timing, and impact of lease payments. Additionally, specific information such as weighted-average discount rates and weighted-average remaining lease terms are required, as well as qualitative information about significant estimates and judgments. Lessees must also disclose information about leases that have been executed but have not yet become effective if material; lessors are required to disclose information about how they mitigate risk associated with the residual value of their leased assets.

### Credit Impairments

The final new standard to be adopted is ASC 326, Measurement of Credit Losses on Financial Instruments, which is scheduled to take effect for most public companies in 2020 and in 2021 for private companies.

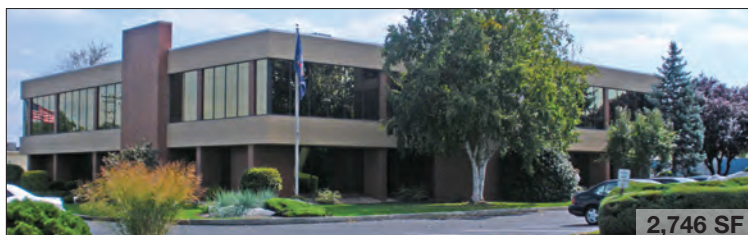
Lenders have been accounting for loan losses under an incurred loss model - it must be probable that a loss has happened to be recognized. The shortcomings of this model were apparent in the 2008 financial crises, because reporting of losses lagged behind the business cycle. To address this perceived weakness, FASB introduced a new model for recognizing loan losses, called the current expected credit losses model. CECL requires a lender to estimate losses over the life of a loan, incorporating both historical loss trends and current conditions, as well as reasonable forecasts of future conditions. This approach allows those losses to be recognized earlier.

Although banks and other lenders will feel the largest impact of the new CECL model, the new standard is not limited to financial institutions or long-term loans. It technically applies to all customer receivables. While operating lease receivables recognized under ASC 842 are outside its scope, the net investment in a sales-type or direct financing lease is not. Lessors who enter into long-term leases, such as equipment leases or some single-tenant commercial leases, that result in sales-type lease treatment will have to apply this new guidance. Like the other two new standards, the new credit losses standard requires significant new disclosures.

The new regulations and their impacts can seem overwhelming; the key is not to delay. Each standard can be implemented with a focused and determined approach, but it takes time.■

### About the Author:

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### Lease - 3425 Simpson Ferry Road, Camp Hill

- One suite available with great perimeter window lines designed for professional users
- Ample parking on-site and easy access to Route 15, Route 581, and the PA Turnpike (I-76)
- Amenities close by including banks, restaurants, shopping, and convenience stores

## Office Listings



Price Reduced

2,850 SF

### Sale - 1223 E. Chocolate Avenue, Hershey

- Beautifully kept, freestanding office on heavily traveled road
- The space is very versatile and will lend itself to a variety of users
- Features include a first floor office area with reception/waiting, offices, a conference room and kitchenette
- The second floor has a two-bedroom apartment that is rented on a short-term basis
- Storage areas are abundant throughout



680 - 5,074 SF

### Lease - 1801 Oberlin Road, Middletown

- Charming three-story stone structure with professional office tenants
- Convenient access to both Harrisburg and Lancaster
- Easy access to Harrisburg International Airport



155 - 5,910 SF

### Lease - 112 Market Street, Harrisburg

- Great downtown location, directly across from the Dauphin County Courthouse and accessible to all the downtown business and entertainment districts
- Suites available in all sizes, from a single office to an entire floor
- The fifth floor suite was recently renovated with expansive views of the Susquehanna River
- Parking is available in the Market Square Garage at market rates



## Office Listings



1,443 - 20,112 SF

### Lease - 30 N. Third Street, Harrisburg

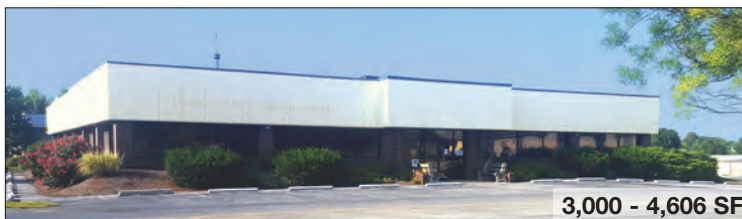
- 1,443 - 20,112 SF contiguous available in Class A office building
- Skywalk to Strawberry Square, Walnut Street garage, Harrisburg Hilton, Whitaker Center, etc.
- This building is Energy Star Certified and utilizes the latest energy management systems for optimal energy efficiency



524 - 10,918 SF

### Lease - 301 Chestnut Street, Harrisburg

- Located at Pennsylvania Place, this is a one-of-a-kind development for the Harrisburg market that includes over 50,000 SF of Class A office space in the City's thriving downtown district
- The building offers an ultimate level of visibility, functionality and sophistication
- On-site parking, workout facility, a swimming pool and high-end finishes embody the urban luxury of this high-rise mixed-use building
- Call for **FREE RENT** details and certified opportunity zone benefits



3,000 - 4,606 SF

### Lease - 24 Northeast Drive, Hershey

- Functional, single-story office building in prominent Hershey location
- Perimeter window line can be expanded to suite tenant's specs
- 35+/- Parking spaces in-common with all tenants in building, and over 100 parking spaces available nearby



270 - 2,311 SF

### Lease - 208 N. Third Street, Harrisburg

- Office space in a prime central business district location
- Historic building faces the Capitol Complex with great window lines
- Downtown amenities are just a few steps away and parking is a block in every direction

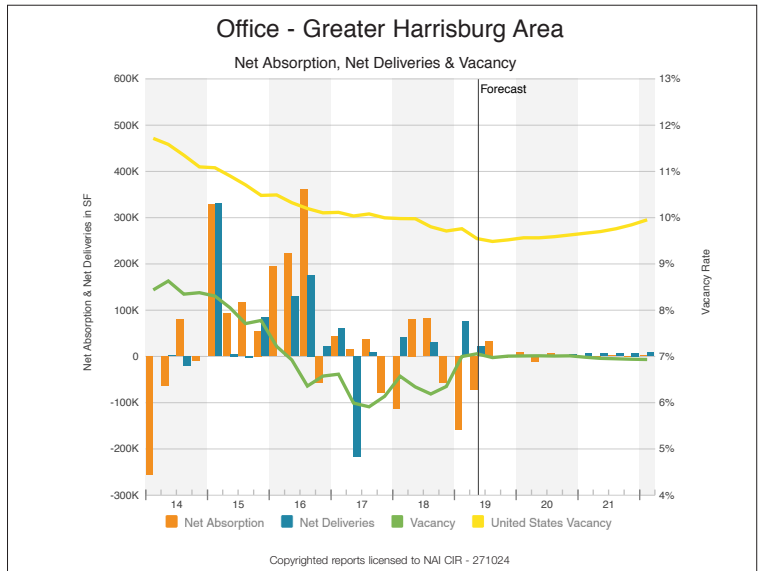


Price Reduced

2,023 SF

### Sale/Lease - 2151 Linglestown Road, Harrisburg

- First floor condominium in the Saratoga Office Center now available
- Currently built for a medical user, but would work well for other office users
- Located close to Colonial Park, Downtown Harrisburg, I-81 and I-83



## Featured Land



### Sale - 5650 Derry Street, Harrisburg

- Nearly 2 acres of vacant commercial/office land located moments from the Route 322 and 283/83 interchange
- The parcel has good visibility along Derry Street and over 230' of frontage
- It could also be an opportunity for additional car parking for the 5620 Derry Street building (10,500+/- SF)

## Investment Listing



### Sale - 3101 N. Front Street, Harrisburg

- Well-maintained, 3-story masonry building overlooking the Susquehanna River
- Five (5) year lease renewal started January 1, 2019
- No deferred maintenance and on-site parking available
- Tenant is an agency of the Commonwealth of PA
- Signed Confidentiality Agreement needed for additional information

## Land Listings

Location	Acres	Zoning	Type
370 W. Main Street, Leola, Lancaster County	1.3 - 2.8	General Commercial	Sale/Lease
Bent Creek Boulevard, Lot 2, Mechanicsburg, Cumberland County	2.02	Community Commercial	Lease
<b>Price Reduced</b> - 7700 Derry Street, Harrisburg, Dauphin County	2.12 (lot 4)	Commercial District General	Sale
<b>Price Reduced</b> - I-81 and W. Trindle Road, Carlisle, Cumberland County	2.18 (2 parcels)	Commercial Highway	Sale
<b>Price Reduced</b> - 100 Narrows Drive, NEC of US Route 422 & Narrows Drive, Lebanon	2.2	Commercial	Sale
<b>Price Reduced</b> - 7700 Derry Street, Harrisburg, Dauphin County	2.3 (lot 8)	Commercial District General	Lease
5650 Derry Street, Harrisburg, Dauphin County	1.90+/-	Commercial Limited	Sale
St. Johns Road, Camp Hill, Cumberland County	3.05	General Commercial District	Sale
Peters Mountain Road & River Road, Halifax, Dauphin County	5.1	None	Sale
700 S. Baltimore Street, Dillsburg, York County	5.23 - 57.5	Agricultural - Conservation (AC)	Sale
Eisenhower Boulevard, Harrisburg, Dauphin County	5.39	Commercial General	Sale
W. Suncrest Drive and Spring Road, Carlisle, Cumberland County	6.72 (5 parcels)	Commercial/Light Industrial	Sale
1706 Good Hope Road, Enola, Cumberland County	6.78	Office Park	Sale
<b>Pending</b> - 503 Jonestown Road, Jonestown, Lebanon County	7.91	Commercial	Sale
Route 441 and Orchard Drive, Harrisburg, Dauphin County	8.34	Single Family Residential District	Sale
<b>Pending</b> - 730 Limekiln Road, New Cumberland, York County	8.64	Commercial Business	Sale
1900 State Road, Duncannon, Perry County	9.46	Commercial	Sale
Carlisle Pike (Route 11) Waterford Square, Mechanicsburg, Cumberland County	8.78 (8 lots)	Community Commercial (C2)	Sale
<b>Price Reduced</b> - Eisenhower Blvd & Highspire Road, Harrisburg, Dauphin County	10	Commercial District General	Sale
Gettysburg Pike & Spring Lane Road, Dillsburg NWC, York County	14.92	Commercial	Sale
<b>Price Reduced</b> - Allentown Boulevard, Harrisburg, Dauphin County	17+	Commercial Highway (CH)	Sale
<b>Price Reduced</b> - 349 Pleasant View Road, New Cumberland, York County	45.48	Commercial Business	Sale
<b>Sold</b> - Linglestown Road, Harrisburg, Dauphin County	61.55	Agricultural Residential	Sale

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## Check Out Our Recent Deals

Visit [www.billgladstone.com](http://www.billgladstone.com) to view listings not included in this issue.



**SOLD – 130 State Street, Harrisburg**

**130 State Street, LLC** purchased this 3,060 SF building in the City of Harrisburg. The Bill Gladstone Group of NAI CIR represented the seller and Ryan Murray of NAI CIR represented the buyer. The property will be redeveloped into a multi-family residential building.



**SOLD - Rishels Hill Road, Bellefonte**

**Rutter's** purchased 8± acres of land located in Centre County. The land will be home to a future Rutter's store. The Bill Gladstone Group of NAI CIR handled the transaction.



**LEASED – 208 N. Third Street, Suite 400, Harrisburg**

**Pledge Platform, LLC**, a free sports fundraising platform, leased 2,231 SF in the City of Harrisburg. The Bill Gladstone Group of NAI CIR handled the transaction with Michael Kushner of the Omni Realty Group. Space remains available - see page 6 for details.