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HARRISBURG COMMERCIAL

# real estate REPORT

## Short-Term Rentals for the Long Haul

Investors in the multifamily sector are examining properties designed for shorter leases and higher turnover.

By Susan Tjarksen



As the market shows signs of cooling and multifamily investors ready their portfolios for a possible downturn, some are diversifying their holdings with a niche asset class with significant potential for growth: short-term rentals.

With roots that go back at least a decade - Airbnb was founded in 2008 - short-term rentals, or STRs, have grown to include new players that have scaled to institutional investment-grade multifamily assets that cater to both business

and leisure travelers. This includes companies creating purpose-built STRs - that is, multifamily properties designed and built expressly to rent out some or all units for short-term stays.

Large-scale short-term rental operators like Stay Alfred and WhyHotel are two case studies to help understand how to successfully tap into this sector. Along with peer companies The Guild, Lyric, and Sonder, these firms now manage more than 5,300 beds in 63 markets, attracting at least \$319 million in venture capital, Cushman & Wakefield recently reported. The bigger players may differ in their approach; Stay Alfred master-leases multiple apartments in a building and rents them to travelers, while WhyHotel offers pop-up hotels that are created by leasing out empty apartments in new buildings during the lease-up phase. Through a new division

**"The bigger players may differ in their approach; Stay Alfred master-leases multiple apartments in a building and rents them to travelers, while WhyHotel offers pop-up hotels that are created by leasing out empty apartments in new buildings during the lease-up phase."**

called Hospitality Living, WhyHotel also will build new multifamily properties specifically for STRs. Regardless of the approach, both companies aim to provide a homelike space with the convenience, access, services, and consistency of a hotel.

While feasible, STRs are not without risk. Regulations governing how these buildings are developed, operated, and taxed vary by municipality, and laws are in continuous flux. Still, the long-term fundamentals of the sector are favorable. As Deloitte stated in its "2019 U.S. Travel and Hospitality Outlook" report, "While regulatory hurdles remain, rental demand is proven."

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**Bill Gladstone, CCIM, SIOR**  
(717) 761-5070 ext. 120  
[wgladstone@naicir.com](mailto:wgladstone@naicir.com)  
[www.billgladstone.com](http://www.billgladstone.com)  
[www.naicir.com](http://www.naicir.com)



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## New Listings



7,382 SF

### Commercial Sale - 25 Carlisle Street, Hanover

- Stunning landmark in the Borough of Hanover available for sale
- This former bank building was beautifully constructed with great attention to detail and has been well-maintained throughout its years
- Over 55' frontage along Carlisle Street



8,286 SF

### Office Sale - 1002 N. 7th Street, Harrisburg

- This former bank is located just moments from the heart of the business-friendly City of Harrisburg, and less than 0.5 miles away from the Capitol and downtown restaurant and retail areas
- The property features excellent on-site parking, an open first-floor layout and many private offices on the second floor
- 36+/- parking spaces available



1,000 - 3,500 SF

### Office Lease - 4300 Devonshire Road, Harrisburg

- Great corner location at Devonshire and Colonial Roads
- The property is well-maintained and the available space offers multiple private offices, an open area, reception/waiting areas, a kitchenette and four restrooms
- The space could be split into two separate suites if desired

## Showcase Articles in 2020

Bill Gladstone Group of NAI CIR Accepting Articles for Harrisburg Publications



**What Are We Looking For?** Industry related articles that our readership of nearly 5,000 business decision makers and industry leaders would benefit from reading in print and online through social media and our website.

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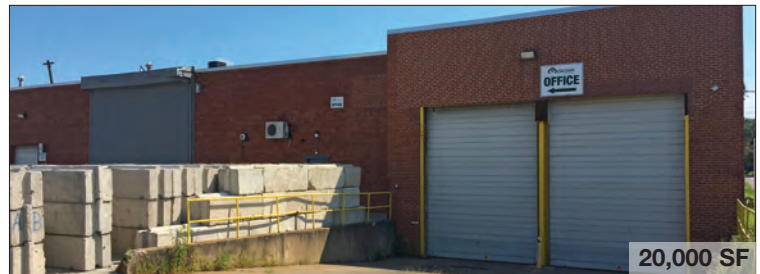
## Industrial Listings



9,493 SF

### Lease - 2150 S. Queen Street, 2nd Floor, York

- Second floor office and warehouse space available for lease
- Located in the growing area of South York just off the I-83 and S. Queen Street interchange
- Good visibility from the highway and S. Queen Street has access to St. Charles Way and traffic signal
- Many retailers and businesses in the immediate area



20,000 SF

### Sale - 638 & 651 Alricks Street, Harrisburg

- Freestanding warehouse along the 6th Street industrial corridor
- Clean, well-maintained, functional, and offers convenient access to I-81, Route 22/322 and the City
- Additional land across the street (638 Alricks Street) is also available for sale, all as one parcel including the street between them (Alricks Street, which has been vacated, paved, and fenced)
- Opportunity for additional car parking, truck parking or outside storage



(Featured article...Continued from page 1)

## Responding to a Changing Market

Right now, the market forces driving demand for short-term rentals include:

**Homelike Accommodations.** Travelers increasingly prefer an experience that blurs the line between home and hotel. According to Conde Nast Traveler, 50 percent of millennials prefer lodging that feels like a home away from home. STRs are typically furnished and decorated, with complete kitchens, full baths, and in-unit laundry. At the same time, many offer the services and amenities of a hotel, including cleaning service, pools, spa rooms, gyms, and more.

**Affordability.** Rates can be cheaper for STRs than traditional hotel rooms, depending on the city. Airbnb reports its average rental in New York, for example, is \$164 per night, compared to \$245 for a hotel room. According to Vrooms, the average nightly rate for short-term rentals in the U.S. is \$217. This summer, Stay Alfred was offering rates as low as \$100 a night in downtown Chicago, versus the \$240 per average hotel night, according to Bloomberg. WhyHotel rooms in Washington, D.C., can be \$150 per night - a steal compared to \$269 for a hotel, per Statista.

**Loyalty Points.** Airlines such as Delta and Qantas are starting to offer loyalty points for short-term rental stays like they do for hotel reservations.

**Easy Access.** Like many hotels, some STRs allow you to open the door with an app on your phone that has a timed entrance for the duration of your stay and then expires afterward. Security isn't breached, and convenience is maximized.

"The industry has always been overwhelmingly supported by the end consumer, which has made it an attractive segment for years," says Mike Wilson, senior vice president of real estate for Stay Alfred. "Occupancies have never been an issue due to the traveler demand clearly demonstrating they prefer a unique experience and a differentiated product."

A potential adverse market force is the regulation of STRs. In Chicago, for instance, not all parts of the city or buildings allow STRs. Hosts with more than one home-share unit must be licensed by the city, and various charges are associated with STRs, such as a hotel accommodation tax and shared housing surcharge. In buildings with more than five units, only the lesser of one quarter of all units or six units may be used as STRs.

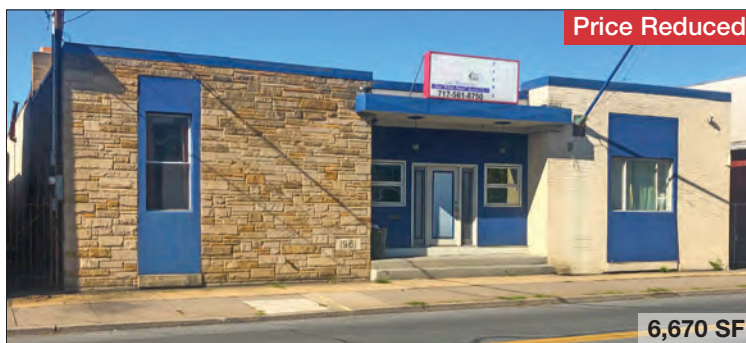
Some companies, of course, have many more units than that. One large STR firm recently announced it will offer more than 90 units in Essex on the Park in Chicago's Loop. "The only way to do that [given Chicago's regulations] is to operate as a hotel," says Katriina McGuire, a partner with Thompson Coburn who focuses on land use, zoning, and developer incentives. "Downtown districts generally permit lodging, meaning hotel uses. However, many planned developments, even if in the downtown area, do not necessarily include lodging as a permitted use."

## The Rental Premium

STRs often are more affordable than traditional hotels for the consumer, and they can be more profitable than conventional apartments for landlords. Apartment owners who offer short-term stays, either directly or through a third party, can realize a rental premium ranging from 25 to 45 percent. This revenue more than offsets STR-related expenses such as unit furnishings, daily cleaning services, and associated fees and taxes.

(Continued on page 4)

## Commercial Listings



### Sale - 1024 Herr Street, Harrisburg

- Single-story flex space with good frontage on Herr Street
- Property features several offices in the front portion of the building and a shop space in the rear with 12' clear ceilings and an 8' x 10' drive-in door
- The property is located just off Cameron Street with quick access to I-83 and I-81



### 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



### Sale - 260 Boas Street, Harrisburg

- Two-story brick building features a fully finished basement, an adjacent courtyard, fellowship hall, kitchen, classrooms, and office
- The property is elevator serviced and the second floor sanctuary holds approximately 250 people
- Built in 1881, this historic building features many architectural details

(Continued from page 3)

“The building owners have now recognized that we present a higher and better use of a downtown multifamily asset,” says Wilson. “We can have a material impact on their financials, and more are turning to us to help them capture that upside by allocating some or all of the property to short-term rentals.”

Stay Alfred generally pays market rent +/-5 percent, Wilson reports. “Where we have the significant financial impact on the revenue side is on the lease-up of a property,” he says. “As opposed to going through a lengthy lease-up process of six or 12 or 18 months, we have the ability to take those units on Day One.”

For owners, leasing carries numerous financial and operational benefits: Property management fees are typically lessened; vacancy expectations are adjusted significantly downward; and building payroll, lease administration, and turnover cost are eliminated.

Typical downtown multifamily properties run a 35 to 40 percent operating expense ratio on average, while Stay Alfred building owners typically run a 23 to 25 percent average on their portion of the building - an increase in annual net operating income.

“When underwriting ground-up development for our hospitality living projects, we analyze our flexible asset functioning across three distinct consumer scenarios,” says Will Hu, senior vice president for acquisitions and development for WhyHotel. “First, as traditional multifamily. Second, as furnished STRs with stays between one night and nine months. Third, and this is WhyHotel's Hospitality Living concept, as a combination of traditional unfurnished homes blended with short-stay furnished accommodations. The allocation of inventory between the two uses is dependent on market dynamics, such as seasonality.”

While top-line revenue for traditional multifamily may only be half that of furnished short-stay rentals, WhyHotel generally projects multifamily to have a 20- to 25-point advantage in occupancy and a 10- to 15-point advantage in operating expense margin, he adds. As a result, NOI for traditional multifamily can still be 70 to 80 percent of a short-term stay use.

Hu explains that in markets without much seasonality in short-stay pricing, such as Los Angeles, multifamily may not be the primary use, but it does present a unique NOI floor in the event of a downturn in the hospitality market. In markets with significant seasonality - for example, Chicago and Boston - traditional multifamily has the potential to generate higher income in off-season months.

“One additional advantage not yet captured in our underwriting is the value of the long-term optionality in the asset,” Hu adds. “The ability to adjust between unfurnished homes and furnished short-stay accommodations is a great hedge against changing market conditions and should theoretically drive the asset's exit cap rate down, but this is a feature to which we don't yet ascribe value.”

### Can STRs Buffer a Recession?

Diversifying income streams is prudent in any market, but it's especially valuable during a downturn. Assets that have a more varied customer base, while not entirely insulated from broader shifts in the economy, are less likely to experience sudden declines in NOI. After all, in general, multifamily is often more insulated

(Continued on page 5)

## Commercial Listings



### 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



### Sale - 453 Jonestown Road, Jonestown

- Over 2 acres of commercial land located just moments from Route 72 and Route 22
- Two-story home on the property could be utilized or removed for a redevelopment opportunity
- Excellent access and visibility from heavily traveled Jonestown Road



### Lease - 4647 Jonestown Road, Harrisburg

- Popular retail site - freestanding, updated building with great curb appeal and visibility on highly traveled street
- Bright, open floorplan on first floor and lower level floor features a separate entrance and drive-in door
- 13 Parking spaces on-site



(Continued from page 4)

than other CRE sectors. And while more developments are being dedicated to short-term rentals, it doesn't have to be an either/or proposition for building owners.

"A recession is inevitable at some point in the likely near term," Wilson says. "Our leases give owners the ability to lock in a tenant in an acceptable portion of the building and receive a pre-negotiated annual rent escalation on those leases." He adds that having Stay Alfred in the property allows long-term guests and full-time residents to utilize other units for visiting friends and family members. The tenant can also stay at other Stay Alfred units nationwide at a significant discount, which carries additional value in the eyes of consumers.

As venture capital continues to pour into these operators and consumer demand fuels the sector's growth, STRs are a strong multifamily niche asset for investors. As STRs expand beyond the early days of renting a room to a corporate service scaled for profit, they are well worth a look by multifamily investors - especially in today's competitive landscape. ■

### About the Author:

Susan Tjarksen is managing director at Cushman and Wakefield's Chicago office. Contact her at [susan.tjarksen@cushwake.com](mailto:susan.tjarksen@cushwake.com).



### 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



### 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



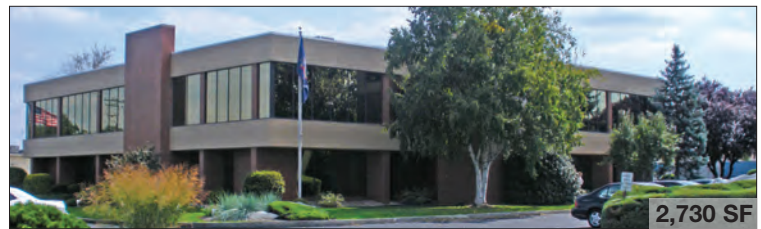
### Lease - 3507 Market Street, Suite 102, Camp Hill

- Located within the heart of the West Shore, this aesthetically pleasing building has one suite available for lease
- The property is centralized on Camp Hill's main travel artery and is close to many restaurants and businesses
- 45 Parking spaces available



### Lease - 156 Cumberland Parkway, Suite 200, Mechanicsburg

- First floor office space available in this Class A, high-profile building
- The location offers easy access to Route 15 and the PA Turnpike (I-76), plus great local amenities
- It is hereby disclosed that a partner in the ownership of this property is a licensed real estate salesperson in the Commonwealth of Pennsylvania



### 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



266 - 4,453 SF

### Lease - 415 Market Street, Harrisburg

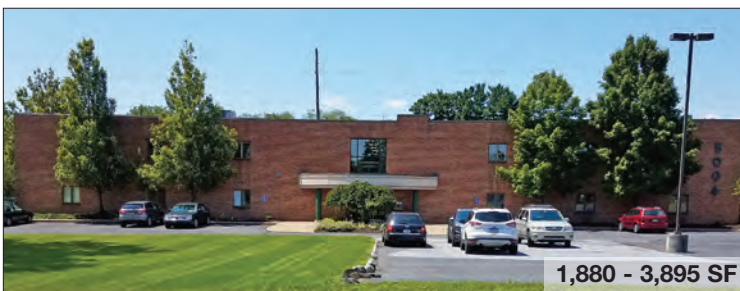
- Attractive office spaces at the Harrisburg Transportation Center
- In walking distance to all the downtown restaurants, amenities, and Riverfront Park
- Located in Technology Corridor Enterprise Zone
- **HALF PRICE RENT for the first year on a 3 or 5 year deal (promotion ends October 31, 2020)**



782 - 1,490 SF

### Lease - 800 N. Third Street, Harrisburg

- Prominent downtown office building across from the State Museum and one block from the Capitol Complex
- Perfect location for attorneys and associations
- On-site parking available to tenants at below market rates



1,880 - 3,895 SF

### Sale/Lease - 5006 - 5010 E. Trindle Road, Mechanicsburg

- Four condominium units available for sale (1,880 - 3,895 SF)
- Excellent location in newly developed area in Hampden Township
- Can be sold individually for owner/user or together as an investment



1,443 - 20,112 SF

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

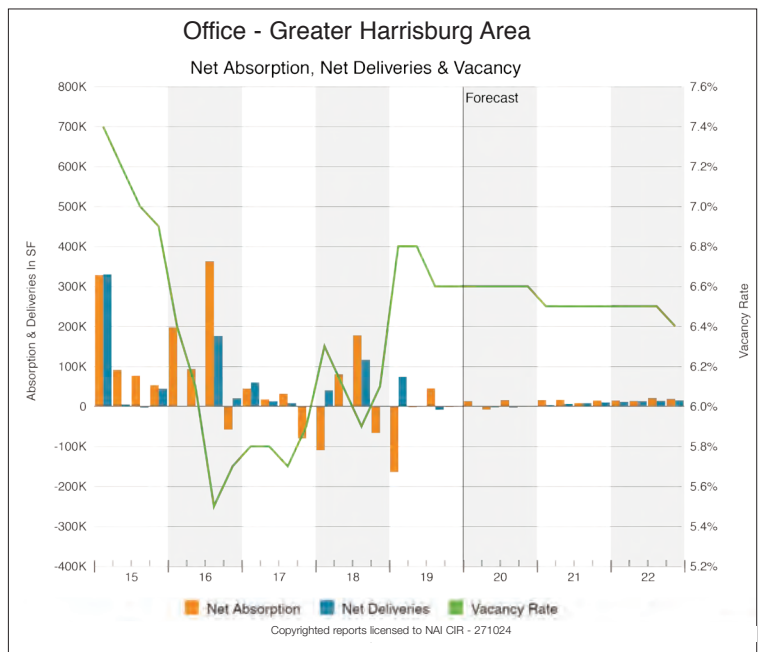
- 1,443 - 20,112 SF contiguous available in Class A office building
- Skywalk to Strawberry Square, Walnut Street Garage, Harrisburg Hilton, Whitaker Center, etc.
- This building is Energy Star Certified and utilizes the latest energy management systems for optimal energy efficiency



680 - 4,260 SF

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

- Charming three-story stone structure with professional office tenants
- Great office setup featuring reception/waiting area, private offices with good views, a conference room, break room, and in-suite restroom
- Convenient access to both Harrisburg and Lancaster



## Investment Listing



5,436 SF

### 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

## Featured Land



2.3 Acres

### Sale/Lease - 7700 Derry Street, Lot #8, Harrisburg

- 2.3 Acres available at high traffic area at a signalized corner, adjacent to new Rutter's Farm Store, Members 1st Credit union and Susquehanna Bank branches
- Surrounding area is densely populated with residential, business and office parks, and other commercial/retail businesses
- Approximately 350' frontage on Derry Street and 190' frontage on Milroy Road

## Land Listings

Location	Acres	Zoning	Type
370 W. Main Street, Leola, Lancaster County	1.3 - 2.8	General Commercial	Sale/Lease
1301 Eisenhower Boulevard, Harrisburg, Dauphin County	1.86	ML-Light Industrial	Sale
<b>Pending</b> - 5650 Derry Street, Harrisburg, Dauphin County	1.90+/-	Commercial Limited	Sale
<b>Pending</b> - Bent Creek Boulevard, Lot 2, Mechanicsburg, Cumberland County	2.02	Community Commercial	Lease
453 Jonestown Road, Jonestown, Union Township	2.05	Commercial	Sale
<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
<b>Pending</b> - St. Johns Road, Camp Hill, Cumberland County	3.05	General Commercial District	Sale
1345 Eisenhower Boulevard, Harrisburg, Dauphin County	3.95	ML-Light Industrial	Sale
Kriner Road, Chambersburg, Franklin County	4.64	Commercial Industrial	Sale
755 Kriner Road, Chambersburg, Franklin County	4.73 - 7.82	Commercial Industrial	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	4.87 (4 parcels)	Commercial/Light Industrial	Sale
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
730 Limekiln Road, New Cumberland, York County	8.64	Commercial Business	Sale
Carlisle Pike (Route 11) Waterford Square, Mechanicsburg, Cumberland County	8.78 (8 lots)	Community Commercial (C2)	Sale
1900 State Road, Duncannon, Perry County	9.46	Commercial	Sale
<b>Pending</b> - Eisenhower Blvd & Highspire Road, Harrisburg, Dauphin County	10	Commercial District General	Sale
<b>Pending</b> - 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

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NAI CIR  
1015 Mumma Road  
Lemoyne, PA 17043  
717 761 5070  
[www.naicir.com](http://www.naicir.com)  
[www.billgladstone.com](http://www.billgladstone.com)



## Check Out Our Recent Deals

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



**SOLD - 10 N. Progress Avenue, Harrisburg**

**10 N. Progress Avenue, LLC** purchased 2,622 SF of office space located in Dauphin County. The Bill Gladstone Group of NAI CIR represented the seller and Roy Brenner of Landmark Commercial Realty, Inc. represented the buyer.



**LEASED - 1900 Crooked Hill Road, Suites 106, 108 & 110, Harrisburg**

**F & J Express, Inc.** leased 12,000 SF of warehouse space in Susquehanna Township. The Bill Gladstone Group of NAI CIR represented the landlord and Ida McMurray of NAI CIR represented the tenant.



**LEASED - 1100 N. Mountain Road, Suite #1, Harrisburg**

**Kaylor, Allwein & Hartman, Inc.**, an engineering firm, leased 2,630 SF of office space located in Dauphin County. The Bill Gladstone Group of NAI CIR facilitated the transaction.