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real estate REPORT

Unlock Trapped Equity and Working Capital

Identify equity in your real estate using the sale-leaseback strategy

By Joseph Larkin, CCIM, MCR, SIOR, SLCR



Where possible, many companies are currently capitalizing on their real estate equity. One of the most powerful ways a company can create value is by employing the strategic and sophisticated use of the sale-leaseback transition.

The sale-leaseback strategy was originally used as a financing transaction when the real estate market lacked adequate access to capital at reasonable rates. It provides the opportunity for a company to cash out the equity in its real estate and convert it to cash to

finance its core business activities, reduce debt, and/or expand operations.

Companies that purchased real estate for their business many years ago may have a large amount of equity in their real estate holdings. Converting the equity into cash may provide a company the opportunity to reinvest the equity back into the business, reduce debt, or acquire a competitor through a leverage buyout or a merger and acquisition.

With a typical sale-leaseback structure, a company sells its operational real estate to an unrelated private investor or an institutional investor. Simultaneously with the sale, the company leases back the property from the investor, typically for 10 to 20 years.

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The company usually receives more cash with a sale leaseback than through conventional mortgage financing. For example, if the transaction includes both land and improvements, the seller receives 100% of the property's market value (minus any capital gains tax). In comparison, conventional mortgage financing normally funds no more than 65 to 75% of a property's value.

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New Listings



NEW Investment Sale - 2719 Agate Street, Harrisburg

- High traffic retail investment within the City of Harrisburg
- Property is well-maintained and fully leased
- Tenants are very well suited for this area of the City
- 25 parking spaces available



NEW Investment Sale - 55 E. Main Street, Mechanicsburg

- Three-unit apartment building in the Borough of Mechanicsburg
- Each apartment consists of one bedroom, one full bathroom, a living area and kitchen
- Property is fully leased and has been well-maintained over the years
- Backyard is currently maintained and furnished by Apartment 1 tenant and enjoyed by all tenants



NEW Office Sale - 7451 Paxton Street, Harrisburg

- Highly visible freestanding building along Route 322 with easy access to Hershey and Harrisburg
- Building was recently remodeled and is in good condition
- The entire site has also recently been repaved and there are 75 unmarked spaces available



NEW Office Lease - 1029 Mumma Road, 2nd Floor, Lemoyne

- Attractive office building with 2nd floor space available
- Property has been well-maintained, features modern upgrades and has ample on-site parking
- Convenient location along the west shore business corridor with quick access to all major business hubs on both east and west shores

Commercial Listings



Lease - 418 Market Street, Lemoyne

- Highly visible location in Lemoyne near I-83 and 581
- Store front windows and off-street parking
- Open floorplan allows for a variety of uses



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

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.

Articles are typically 1,200 – 1,500 words and include an author bio, headshot, and recognition for your company.

Contact: Leah Wentz (717) 761-5070, ext. 116 or lwentz@naicir.com.

(Featured article...Continued from page 1)

Typically, the initial lease term can be structured for a period that meets the company's needs without the burden of balloon payments, call provisions, refinancing, or the other issues of conventional financing. Moreover, the seller avoids the substantial costs of conventional financing such as points, appraisal fees, and some legal fees. Options to renew the lease also may be negotiated, extending the occupancy period.

From the perspective of the company, converting the equity in the real estate into cash and deploying the cash into operations could generate a higher return than keeping the equity in its real estate. The elimination of any mortgage debt on the real estate also can improve the company's financial statements.

From an accounting standpoint, depending on the book value, the true market value of real estate is not reflected on the balance sheet. The sale-leaseback transaction places the cash received from the sale on the books as a short-term asset and removes the real estate as long-term capital asset at the book value (typically below market value) from the balance sheet. This conversion of the equity into cash would reflect the true value of the asset, now cash. This could have a dramatic impact on the balance sheet and, more importantly, the company's financial ratios.

From a tax standpoint, when converting the company from an owner to a tenant, you're allowed to effectively depreciate the land as lease payments to cover the use of the land and the building. If you own the property, you can't depreciate the land. Those lease payments are fully tax deductible.

There are some drawbacks to this strategy: the sale of real property may trigger a capital gains tax and, under GAAP, the lease will be "booked" as a long-term liability. Based on the lease structure, the lease payments may be straight-lined or amortized.

The company's decision to complete a sale-leaseback transaction may be based on a variety of after-tax analysis. For instance, comparing the return on the deployment of capital in the business, using an after-tax weighted average cost of capital,

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Commercial Listings



Sale - 2221 N. Sixth Street, Harrisburg

- Historic church was founded in 1890, rebuilt in 1895 and expanded in 1916 as a memorial to Camp Curtin, the largest northern military camp of the Civil War
- The church stands out as a prominent important architectural landmark for the City of Harrisburg and the region
- Property features the ability to seat over 700 congregants, beautiful stained glass windows, one of the largest organs in Harrisburg, many offices and classrooms, and a large commercial kitchen with adjacent fellowship hall



Sale - 301 N. Enola Road, Enola

- Building was constructed in the early 1940s and originally served as housing for those working at the Penna Railroad across Route 11/15, and afterwards it was converted into an appliance sales and service center
- The property features floor to ceiling windows in the retail area with views of the Susquehanna River
- In addition to the spectacular view you also get large rooms for plenty of storage or additional workspace, all on 1.31+/- acres



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

to the return on the equity if the company continues to own its real estate.

This strategy may provide a business with an exit strategy to sell the going concern (the business) and the real estate separately. By partitioning the real estate from the business, the parts may be worth more than the whole, allowing for the sale of the business individually and capitalizing on the individual values.

The investor benefits from having a financially bankable tenant who already occupies the space then enjoying the security of a stable, long-term income stream. The lease is structured as an absolute net, which provides the benefit of eliminating most of the property management responsibilities and capital investments. The type of lease and terms are negotiated at the outset.

The investor's evaluation of the sale-leaseback transaction starts with the tenant's credit. Moreover, investors use a variety of performance measurements such as capitalization rate; internal rate of return, both before- and after-tax; capital accumulation modeling and financial management rate of return.

"The investor's evaluation of the sale-leaseback transaction starts with the tenant's credit. Moreover, investors use a variety of performance measurements such as capitalization rate; internal rate of return, both before- and after-tax; capital accumulation modeling and financial management rate of return."

The sale-leaseback strategy provides an alternative to ownership, which is leasing. "You don't need to own your real estate but control it" through a well-structured lease. The evaluation of the sale-leaseback transaction has many integral parts for both the company and the investor. When properly structured, it is a win-win situation for both.

Of course, it is important to have an experienced and knowledgeable commercial real estate team working with you as you consider this option. ■

About the Author:



Joseph Larkin, CCIM, MCR, SIOR, SLCR is a commercial and investment real estate broker who provides transactional services and valuable counseling reports to his clients nationwide. Joe's core competencies include the investment performance and occupier analysis in the real estate markets and is an expert witness in litigation. He is a trusted advisor, agent advocate and an expert in financial modeling. He has received the Instructor of the Year Award from the CCIM Institute on three separate occasions. He is a proud alumnus of the Burns School at the University of Denver where he received a MS in Real Estate and has an appointed position as an adjunct professor. Joe was a lecturer at New York University (NYU) for 1-years. He has authored several articles and contributed to a number of books and publications on commercial and investment real estate topics. You can reach him at (720) 900-2044 or joelarkin@ccim.net.

Industrial Listings



8,000 SF

Lease - 1900 Crooked Hill Road, Harrisburg

- Multi-use building with up to 8,000 SF available for lease
- Built in 2001, the space features newer upgrades including high ceilings (18'7" clear), 2 docks, 2 drive-in's, a sprinkler system and central air and heat
- Located minutes from the City of Harrisburg, Route 22 and I-81, this site is highly desirable



4,823 SF

Lease - 651 Gibson Boulevard, Harrisburg

- Well-maintained, functional flex space in established industrial setting
- Easy access to and from I-83 makes the site attractive for users with nearby truck traffic
- The space has one drive-in, one dock, and a second knock-out door



1,394 SF

Sale - 140 - 148 Ole Lane, Grantville

- This nearly 1,400 SF industrial building sits on over 2 acres of paved parking
- Perfect for a trucking company or industrial user needing quick access to I-81
- Parking availability for 60+/- cars and trailers

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)**



200 - 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
- Furnished suites available



Price Reduced

3,600 SF

Lease - 4386 Sturbridge Drive, Harrisburg

- Class A office space for medical or professional use
- Space in shell condition, ready to accept a build-out designed to suit tenant
- Located along Route 39 with access to amenities such as lodging, eateries, gas, banking and all major transportation corridors



120 - 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



Price Reduced
1,880 - 3,895 SF

Sale - 5006 - 5010 E. Trindle Road, Mechanicsburg

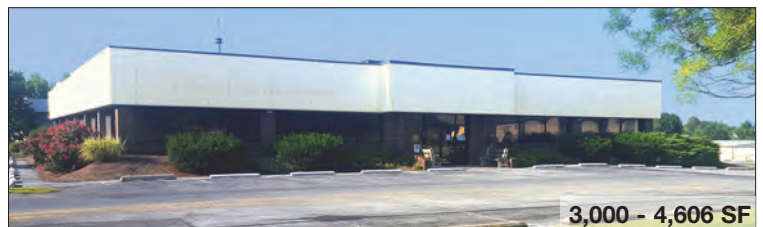
- Four condominium units available for sale (1,880 - 3,895 SF)
- Excellent location in newly developed area in Hampden Township
- Can be sold individually for owner/user or together as an investment



8,403 SF

Lease - 101 N. Pointe Boulevard, Lancaster

- Class A, multi-tenanted building in the heart of Lancaster County's business area
- This beautiful building boasts large window lines, in-suite cooling/heating, in-suite music system, a guarded lobby, a common area breakroom and many high-end finishes
- Great central location with ample parking available



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

Office Listings



Lease - 1335 N. Front Street, Harrisburg

- Functional first floor office space includes four offices, a work room, reception area, kitchen, and two bathrooms
- Grand windows overlook beautiful Susquehanna River in downtown Harrisburg
- Parking available in a lot on the next block for the first floor tenant
- Conveniently located minutes from I-81 and I-83



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



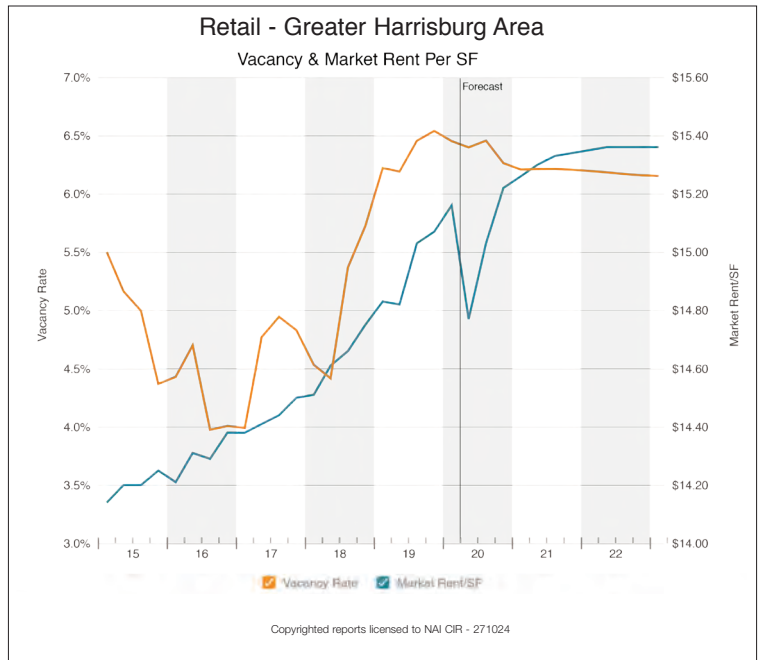
Sublease - 3 Kennedy Street, Lancaster

- This 2,875 SF former bank has modern features and an intelligent layout for a variety of users
- The design includes 3 drive-thru lanes (1 ATM), 4 private offices, conference room, and a break room
- Located just minutes from the Route 30 interchange at Greenfield and Old Philadelphia Pike and Route 222



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



Investment Listing



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



Sale - 700 S. Baltimore Street, Dillsburg

- Three parcels with great topography and accessibility from Baltimore Street (Route 74)
- Only moments from Route 15, a truly unique opportunity with a great country setting for a residential neighborhood
- Properties can be sold together or individually

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	1.77	ML-Light Industrial	Sale
Sold - Bent Creek Boulevard, Lot 2, Mechanicsburg, Cumberland County	2.02	Community Commercial	Lease
453 Jonestown Road, Jonestown, Union Township	2.05	Commercial	Sale
Price Reduced - 7700 Derry Street, Harrisburg, Dauphin County	2.12 (lot 4)	Commercial District General	Sale
Price Reduced - I-81 and W. Trindle Road, Carlisle, Cumberland County	2.18 (2 parcels)	Commercial Highway	Sale
Price Reduced - 100 Narrows Drive, NEC of US Route 422 & Narrows Drive, Lebanon	2.2	Commercial	Sale
Pending - 7700 Derry Street, Harrisburg, Dauphin County	2.3 (lot 8)	Commercial District General	Lease
1345 Eisenhower Boulevard, Harrisburg, Dauphin County	4.46	ML-Light Industrial	Sale
Kriner Road, Chambersburg, Franklin County	4.64	Commercial Industrial	Sale
Price Reduced - 755-759 Kriner Road, Chambersburg, Franklin County	4.73 - 7.83	Commercial Industrial	Sale/Lease
W. Suncrest Drive and Spring Road, Carlisle, Cumberland County	4.87 (4 parcels)	Commercial/Light 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
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
Pending - Eisenhower Blvd & Highspire Road, Harrisburg, Dauphin County	10.0	Commercial District General	Sale
Pending - Gettysburg Pike & Spring Lane Road, Dillsburg NWC, York County	14.92	Commercial	Sale
Price Reduced - Allentown Boulevard, Harrisburg, Dauphin County	17+	Commercial Highway (CH)	Sale
Price Reduced - 349 Pleasant View Road, New Cumberland, York County	45.48	Commercial Business	Sale

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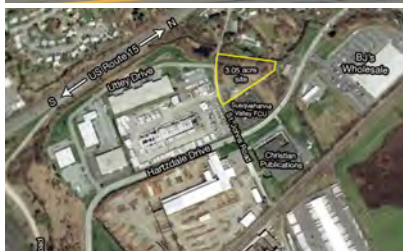


Visit www.billgladstone.com to view listings and deals not included in this issue.



SOLD - 1024 Herr Street, Harrisburg

Dasarath M. Patel purchased this 6,670 SF industrial building in Harrisburg. The buyer plans on using the property as an investment. The Bill Gladstone Group of NAI CIR represented the seller and Bo Magnum of Landmark Commercial Realty, Inc. represented the buyer.



SOLD - St. Johns Road, Camp Hill

847A Pinetown Road, LLC purchased 3.05 acres at St. Johns Road in Camp Hill. It will be the future home of a 10,000 SF shop for J.A. Kolva, Inc. The company has been a trusted residential and commercial electrical contractor in the Harrisburg-York area for 25 years. The Bill Gladstone Group of NAI CIR handled the transaction.



LEASED - 3425 Simpson Ferry Road, Suite 201, Camp Hill

Pennsylvania Council of Children, Youth & Family Services (PCCYFS) leased 2,730 SF of professional office space in Camp Hill. PCCYFS is focused on improving the quality of life for Pennsylvania's children, youth, and families who are at risk by supporting and promoting an accessible service delivery system within our communities. The Bill Gladstone Group of NAI CIR represented the lessor and Dan Alderman of NAI CIR represented the lessee.