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HARRISBURG COMMERCIAL

real estate REPORT

Cashing In

The sale-leaseback is an appealing option for companies looking to leverage owned real estate for cash, all without disrupting day-to-day operations.

By Joseph A. Fisher



With the commercial real estate industry facing significant instability for the foreseeable future, businesses may need access to cash to keep the lights on. This need extends from the biggest of big-box stores to the smallest mom-and-pop storefronts; COVID-19 isn't too discriminating when it comes to its impact on businesses. The sale-leaseback is a transaction that has long been a common tool available to CRE professionals. But these days, it might prove especially valuable to help a cash-strapped company survive an unprecedented time.

Basically, the sale-leaseback is an avenue for a business to improve its cash position by selling owned real estate while retaining the right to use the property through a long-term lease. Potential investors, meanwhile, are looking for quality income-producing real estate with a tenant (or tenants) who is willing to sign a long-term lease. Sounds like a win-win, right? The tenant receives an influx of cash that will improve its ability to operate in the immediate future; the buyer makes a long-term investment while managing risk with an established tenant. Both sides of a deal address their priorities.

Who Benefits?

Sale-leaseback transactions come in all shapes and sizes, which shows the wide appeal of the potential benefits. Recently, as the coronavirus pandemic continues to wreak havoc

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4,454 SF

NEW Office Sale - 200 S. Progress Avenue, Harrisburg

- Don't miss out on the wonderful opportunity to own prime real estate on this desirable street in Harrisburg
- The office is currently being used as a longtime counseling practice but has many different possibilities
- The layout is flexible and consists of a waiting area, several private offices and a second floor that could potentially be rented out separately



3,500 SF

NEW Office Lease - 930 Century Drive, Suite 102 Mechanicsburg

- Attractive office suite in recently renovated building
- The inside features carpet tiles, neutral colors and an open area allowing for various future configurations
- Good parking and easily accessible from Route 15



939 - 1,227 SF

NEW Office Lease - 2090 Linglestown Road, Harrisburg

- Attractive Class A building located in a populated business area with easy access to Front Street and Routes I-81, I-83, and 322
- Suite 107 & 205 available
- This professional office space has been nicely finished and comes competitively priced



9.42 Acres

NEW Land Sale - Hanshue Road, Tract 2, Hummelstown

- Over 9 acres of land available for sale in Hummelstown
- Property is zoned Residential Agriculture, which allows for single family homes (on 1 acre+ lots), churches and agricultural uses
- Over 650' frontage along Hanshue Road



7.77 Acres

NEW Land Sale - Cherry Street (Lot#9) & Walnut Street, Highspire

- Over 7 acres of land available for sale tucked away in predominately residential area
- The property consists of three parcels total and has public utilities located in the adjacent site
- Quick access to the 76/283 Interchange

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on the global economy, discount retailer Big Lots completed sale-leasebacks on four distribution centers, collecting roughly \$550 million after taxes and expenses. But many much smaller businesses can also benefit, such as law firms and medical practices that own their real estate.

The lease commitment in a sale-leaseback is usually 10 to 15 years. Use of the sale-leaseback allows the seller to convert owned real estate to cash at long-term rates and allows them to realize 100 percent of the asset's available value - compared to, say, accessing 70 percent of an asset's value through bank debt. By using the available cash from the real estate, the seller

"Use of the sale-leaseback allows the seller to convert owned real estate to cash at long-term rates and allows them to realize 100 percent of the asset's available value - compared to, say, accessing 70 percent of an asset's value through bank debt."

preserves its borrowing limit access to the debt market for the future. With the long-term lease, the business also retains the ability to maintain control of the facility's operation, maintenance, and potential alterations.

Nothing is too good to be true, and, accordingly, sale-leasebacks come with risks. By disposing of its real estate asset, the selling business gives up the right to any appreciation of the asset that might be realized in the future. Additionally, the long-term lease removes the flexibility to benefit if rental rates move downward. The disposition also means that the seller/lessee may be subject to relocation at the end of the primary lease period. By negotiating options to renew the lease, the business protects itself against relocation as well as upward movements in the rent cost of the space.

For the investor, the sale-leaseback represents an opportunity to acquire an attractive real estate investment with a long-term income stream from a selling tenant with good credit. The investor can then earn a reasonable yield with a reasonable risk profile. But the investor still carries some risk should the commercial real estate market decline or the tenant becomes unable to fulfill the lease. If a sale-leaseback transaction took place in December 2019, for example, the investor could be facing difficulty related to the impact of COVID-19.

There is one particular market that's ripe for the sale-leaseback transaction. With U.S. corporations owning nearly \$2.5 trillion of real estate, that capital might be of better use to the companies if that real estate were sold and leased back. The returns that are available from real estate are typically less than returns for a corporation's core business, creating positive leverage by converting the value of real estate to cash for the business. Additionally, individuals or group ownership entities that own the real estate they occupy for their business would find this transaction beneficial. Medical and other professional practices are two good examples of types of companies that should consider sale-leaseback.

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 - 2801 North Third Street, Harrisburg

- Stunning landmark in the City of Harrisburg available for sale
- The Zembo Shrine Center was beautifully constructed with the Moorish Revival style architecture and has been well-maintained throughout its years
- Over 300 lined parking spaces



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

A Hypothetical Sale-Leaseback

The Orthopedic Clinic purchased a second-generation 6,000-square-foot office building 10 years ago for its private medical practice. The corporation paid all cash for the building, with the following terms of the purchase:

- Purchase price: \$775,000
- Acquisition costs: \$7,750
- Improvement/land allocation: 80/20

The appraised value today is \$937,500. The Orthopedic Clinic has an offer from an investor to purchase the building for the appraised value and would lease the building back to the Orthopedic Clinic with an absolute net lease for 10 years. The net lease payments would be \$75,000 per year for the first five years, with a 10 percent increase for years 6 through 10. For analysis purposes, assume the lease payments would be payable annually at the end of the year. The cost for The Orthopedic Clinic to sell the building today would be 5 percent. The Orthopedic Clinic's after-tax weighted average cost of capital is 6 percent, and their tax rate for all income is 21 percent. The Orthopedic Clinic's incremental borrowing rate is 5.75 percent.

The projected annual growth in value of the property is 3 percent per year and the projected cost of sale at the end of the projected occupancy period is 5 percent. The Orthopedic Clinic has retained your firm to perform an after-tax sale-leaseback analysis and help them determine whether they should continue to own their building or accept the offer to sell and leaseback to occupy the building for the next 10 years.

1 What are the net present values of continued ownership versus sell and leaseback?

The NPV of both positions calculated at the user's cost of capital provides the economic benefit of both positions over the projected analysis period in present value money - the larger value indicating the better decision between the alternatives.

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Industrial Listing



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

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 - 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



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

(Continued from page 4)

② What sale price at the end of the holding period of the continue to own option would equalize the net present values of the two alternatives?

The continue-to-own value is the present value of the annual ownership cash flows and the sales proceeds discounted to EOY 0. For the sale-leaseback, this value is the present value of the cash received at sale reduced by the present value of the lease cash outflows over the analysis period.

③ What is the after-tax cost of the capital raised in the sale-leaseback? 8.5 percent.

④ How does the before- and after-tax amount and cost of funds raised from the sale-leaseback compare to the before- and after-tax amount and cost of funds raised from conventional financing?

The before-tax sale proceeds from the sale-leaseback are typically greater than the before-tax proceeds from a conventional finance or refinance of the property, and the before-tax cost of the funds raised from the sale-leaseback is usually greater than the before-tax cost of the funds raised from the finance or refinance. The after-tax sale proceeds from the sale-leaseback may be more or less than the after-tax proceeds from conventional financing, and the after-tax cost of the funds raised from the sale-leaseback may be more or less than the after-tax cost of conventional financing.

While commercial real estate reacts to a quickly changing world, the sale-leaseback could be a solution that matches businesses looking for cash with investors looking for stability. ■

About the Author:

Joseph A. Fisher, CCIM, is the president of Fisher Investment Real Estate in Indianapolis. Fisher has been a CCIM Institute instructor since 1980 and was CCIM Institute president in 2007. Contact him at j.a.fisher@att.net.



Lease - 4109 Derry Street, First Floor, Harrisburg

- Freestanding, newly renovated office space situated at a dedicated signalized intersection
- Accessible directly from I-83 ramp on Derry Street
- Space is functional and the location has high traffic, which makes it perfect for your business sign exposure

Office Listings



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



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 (HIA)



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

Office Listings



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

3,956 SF



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

2,000 SF



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

1,843 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

145 - 4,542 SF

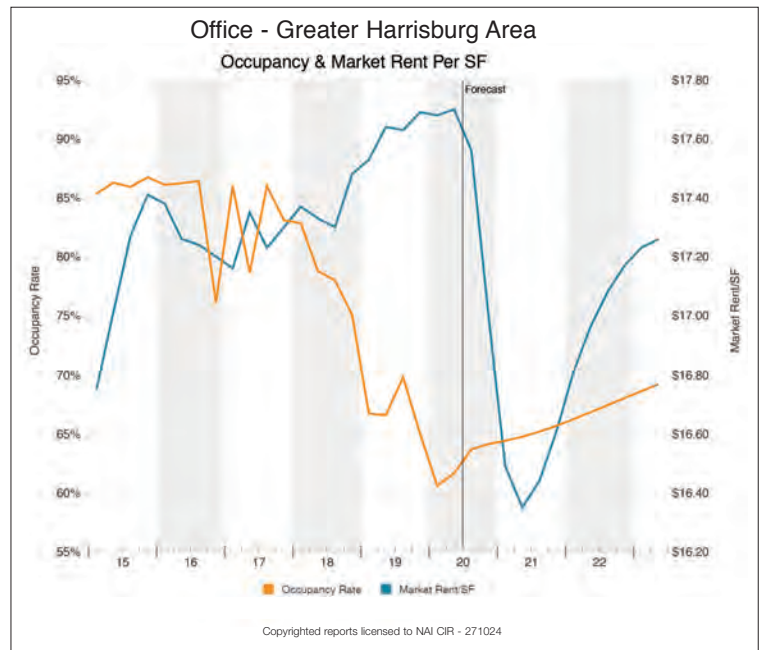


Price Reduced

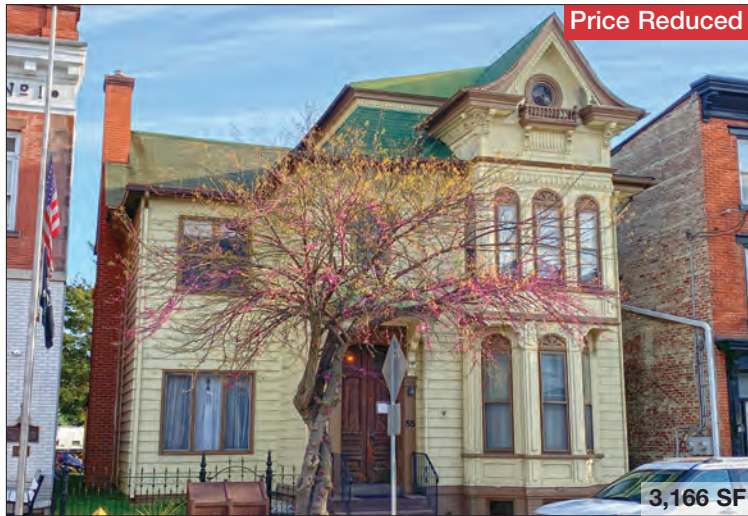
Lease - 4386 Sturbridge Drive, Harrisburg

- 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

3,600 SF



Investment Listing



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
- Two of the three apartments are leased and this property has been well-maintained over the years

Featured Land



Sale - 503 Jonestown Road, Jonestown

- 7.91 Acres of commercial land located at a signalized intersection of Route 72 and Jonestown Road
- Quick access to Route 22 and 322, and I-78
- Zoning is Commercial which permits banks, convenience stores, hotels and more

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
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
NEW - Cherry Street (Lot #9) & Walnut Street, Highspire, Dauphin County	7.77	Residential Low Density	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
NEW - Hanshue Road, Tract 2, Hummelstown, Dauphin County	9.42	Residential Agriculture	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
Sold - 349 Pleasant View Road, New Cumberland, York County	45.48	Commercial Business	Sale

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Check Out Our Recent Deals

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



SOLD - 260 Boas Street, Harrisburg

Church 1 Holdings, LLC purchased this former church property in Harrisburg. The buyer plans on redeveloping the property into luxury apartments. The Bill Gladstone Group of NAI CIR represented the seller and Ryan Murray of NAI CIR represented the buyer.

SOLD - 1508 Derry Street, Harrisburg

Anglican Church of the Pentecost purchased an 18,355+/- SF religious facility in the City of Harrisburg. The Bill Gladstone Group of NAI CIR represented the seller and Christine Farrell of Howard Hanna Real Estate Services at the Colonial Park Office represented the buyer.

LEASED - 637 Lowther Road, Lewisberry

LeafGuard Holdings Inc. leased 5,464 SF of industrial space in Lewisberry. The business sells and installs the patented LeafGuard Brand one-piece, seamless, leaf-shedding gutter systems. The Bill Gladstone Group of NAI CIR represented the tenant and Dan Alderman of NAI CIR represented the landlord.