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HARRISBURG COMMERCIAL

# real estate REPORT

## 3 Tax-Specific Paths to Liquidity for Real Estate Investors

The 2020 CARES Act, passed amid the initial outbreak of COVID-19, opens doors for real estate investors.

By Bob Bauer and Jill Starrs



**W**ading through the tax legislation implications of the 2017 tax reform and 2020 CARES Act can be overwhelming for many real estate companies.

But there's no doubt that the industry should pay attention. Passed in the weeks after the COVID-19 pandemic shut down much of the U.S. economy in 2020, the legislation created several significant tax opportunities that can accelerate tax savings to provide liquidity for commercial real estate investors.

### 1. First-Year Depreciation Deduction

The 2017 tax reform bill, officially titled the Tax Cuts and Jobs Act of 2017, increased the first-year depreciation deduction from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023.

This modification is significant because real estate companies are able to deduct the full cost of qualified property in the year of purchase and reduce the after-tax cost of an investment. This deduction will phase down after 2022, so time is of the essence. A cost segregation study should be performed to identify the portion of the purchase price that can be written off in the first year.

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Autumn Addley, front right, is not a licensed REALTOR.

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# NAICIR

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## New Listing



11,505 SF

### NEW Office Sale - 28 E. Main Street, New Kingstown

- 11,505+/- SF of flex space in Silver Spring Township with General Industrial Zoning
- Property had many uses over the years - Harley Davidson bike shop, Tae Kwon Do school, offices and storage
- Many options on this 1.77+/- acre site
- Income producing tenant occupying 70% of the space

## Industrial Listings



10,125 SF

### Lease - 5610 Derry Street, Harrisburg

- Ideal industrial location in Harrisburg with accessibility to I-83 and other highly traveled corridors
- Warehouse space contains one dock, one drive-in, and 18'+ clear ceiling height
- Good space for contractors, small distribution and storage



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

## Commercial Listings



30,112 SF

### Sale - 25 & 33 Carlisle Street, Hanover

- 30,112 SF stunning landmark in the Borough of Hanover
- This former bank building was beautifully constructed with great attention to detail and has been well-maintained
- The adjacent (and connecting) office building is also included in the sale



Price Reduced

5,918 SF

### 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



1,600 - 8,000 SF

### 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



**Example:** A partnership that purchased a multifamily property in 2019 is now able to write off more than 25 percent of the property cost in the year of acquisition, whereas prior to the new tax law, they would have only recovered 10 percent. The partnership can pass out large taxable losses to their investors who can use them to offset other real estate income and gains from the sale of properties.

**Result:** The 10 percent investor's allocable share of the first-year depreciation deduction is \$1 million, rather than \$400,000 under the old law. If you assume the investor has other rental income that will be reduced by this deduction, the rental income would be eligible for the 20 percent qualified business income (QBI) deduction resulting in an effective federal tax rate of 29.6 percent. The utilization of the \$1 million deduction results in a first-year tax savings of \$296,000. If a \$40 million multifamily property is 65 percent leveraged, this tax savings to the 10 percent investor's equity investment of \$1.4 million results in a first-year return on investment of 21 percent from this tax savings alone.

**"The 10 percent investor's allocable share of the first-year depreciation deduction is \$1 million, rather than \$400,000 under the old law."**

## 2. Faster Write-Offs for Interior Building Improvements

The 2020 CARES Act made a technical correction to the 2017 tax law, which made qualified improvement property (QIP) eligible for the 100 percent bonus depreciation. The CARES Act specifically designates that QIP has a 15-year recovery period for depreciation.

QIP is defined as any improvement to an interior portion of a building that is nonresidential real property, if such improvement is placed in service after the date the building was first placed in service. Expenditures attributable to the enlargement of the building, any elevator or escalator, or the internal structural framework of the building, however, are excluded.

This technical correction is effective for property placed in service after Dec. 31, 2017. Taxpayers or their advisers should review 2018, 2019, and 2020 fixed asset additions and determine if they are QIP. The taxpayer can then either elect to file an amended tax return to correct the depreciation deduction in the year acquired or elect to file a change in method of accounting, recompute the missed deductions, bring them forward to the current year, and deduct them on their 2019 or 2020 return. Such corrections provide unprecedented potential tax savings for commercial real estate companies.

**Example:** A commercial real estate partnership acquired an office and retail property in early 2019 and then made a \$2 million investment to update and retrofit the interior portion of the property.

**Result:** In addition to the first-year depreciation deduction on the purchase price of the property, a partnership can deduct the full \$2 million investment to improve the property. A 10 percent investor would receive a \$200,000 deduction to offset other rental income. Assuming the other rental income is QBI, which carries an effective federal tax rate of 29.6 percent, this investor

(Continued on page 4)

## Office Listings



### Lease - 147 W. Airport Road, Suite 300, Lititz

- Exceptionally well-maintained three-story brick office building with an impressive exterior design
- The entire third floor (8,000 SF) is available, however the Landlord is able to subdivide down to about 5,000 SF (utilizing the rest of the space themselves)
- The suite has a good mix of private offices, workstation areas and conference/training rooms



### 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 - 1773 W. Trindle Road, Suites B & D, Carlisle

- Newly updated office space for lease along busy Trindle Road
- Easy access to I-81 and the rapidly growing areas of Carlisle
- Located right in the heart of new retail and adjacent to Target anchored Carlisle Crossing Shopping Center

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receives an additional tax savings of \$59,200 as a result of the technical correction for QIP.

### 3. Utilize Net Operating Losses to Create Liquidity

The added deductions described above can be very substantial by creating a net operating loss (NOL) or substantially increasing an NOL that did not consider these provisions. The NOL can then be used to obtain immediate tax refunds.

The law before the changes by the 2020 CARES Act limited business losses to \$500,000 and did not allow NOL carrybacks. In addition, the NOL carryforward was limited to 80 percent of the taxpayer's income in future years.

But now, under the provisions of the CARES Act, businesses have the choice of recalculating the depreciation that should have been allowed in those prior years and then deciding to either amend those years or bring the added deductions forward and catch it all up in their extended 2019 or 2020 returns.

If those deductions are large enough to create net operating losses, taxpayers, including investors in and owners of commercial real estate, can carryback those losses and obtain immediate tax refunds for tax paid at any time in the last five years.

Modeling of the potential loss carryback and refund opportunities becomes essential to determine the highest and best use of the losses. Your losses, if carried forward, might only offset income otherwise taxed at 29.6 percent versus; if carried back, they might reduce income that was taxed at 39.6 percent to provide a refund.

**Example:** If the losses created by the added deductions are not passive, then a taxpayer can utilize those losses to offset other income, thereby creating an NOL.

**Result:** Using the two previous examples, a 10 percent non-passive investor could utilize the \$1 million multifamily added bonus depreciation and the \$200,000 QIP bonus depreciation to reduce their current year income by \$1.2 million. If this investor had \$500,000 of other income, then the losses would generate a \$700,000 NOL. If the above investments were made in 2019, the \$700,000 NOL could be carried back (and assuming \$500,000 of income in 2014 and 2015) to obtain a refund of tax paid in those years. A married person filing a joint return who had reported income of \$500,000 in those prior years and incurred a \$700,000 NOL in 2019 could receive a federal refund of \$215,000, in addition to the savings of \$145,000 on the 2019 deductions.

These provisions create a great opportunity for commercial real estate companies to review past fixed asset additions, plan for current and future asset additions through 2022, and take advantage of the write-offs allowed by these new and expanded legislative provisions to provide liquidity in the current real estate market. ■

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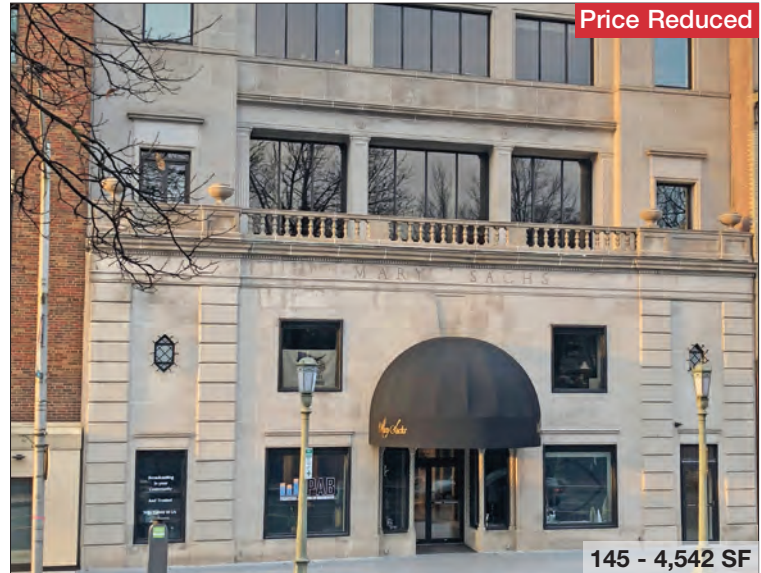
## Office Listings



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 (HIA)



Price Reduced

145 - 4,542 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



939 - 1,320 SF

#### Lease - 2090 Linglestown Road, Suites 107 & 205, 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
- This professional office space has been nicely finished and comes competitively priced
- Ample parking available



# Office Listings



## **Sale - 2451 N. 3rd Street, Harrisburg**

- Commercial ADA accessible one story building with finished lower level in excellent condition that has been recently remodeled (carpet, paint and windows)
- Building offers 13 private offices, waiting/reception area, two conference rooms, break room, three restrooms, and a large training room on the lower level
- Located on the corner of N. 3rd and Schuylkill, across from the Polyclinic Medical Center

4,186 SF



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

- 1,449 - 19,665 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

1,449 - 19,665 SF



## **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

3,500 SF



## **Lease - 3780 Trindle Road, 2nd Floor, Camp Hill**

- 790 SF centrally located property along Trindle Road with great visibility and excellent access
- Second floor suite, above prestigious Mount Jewelers, features three offices and a reception area
- Very well-maintained property

790 SF



Price Reduced

## **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

1,500 SF



486 - 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!



# Office Listings



## Lease - 1665 Roosevelt Avenue, York

- Join OSS Health at their brand new location on Roosevelt Avenue, just off Route 30 and moments from I-83
- Approximately 14,438 USF available on the second floor with stunning views of York County
- Excellent opportunity for tenant to help design and customize their new facility to meet their unique space needs

18,617 SF



## 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



Price Reduced

1,330 SF

## Lease - 300 N. 2nd Street, Suite 704, Harrisburg

- Seventh floor (sublease) office space available in this downtown high-rise with excellent access to Harrisburg amenities
- The building boasts a marble and glass entranceway
- The suite has a waiting area, large conference room, private office, a storage area, kitchenette, and all furniture is included in the rent



2,875 SF

## Sublease - 3 Kennedy Street, Lancaster

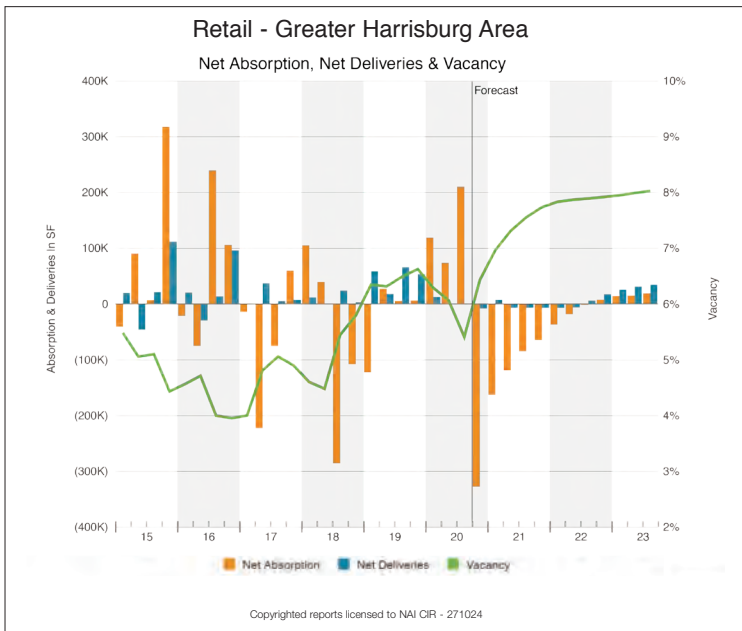
- This 2,875 SF former bank has modern features and an intelligent layout for a variety of users
- The design includes 3 drive-thru lanes (1 ATM), 4 private offices, conference room, and a break room
- Located just minutes from the Route 30 interchange at Greenfield and Old Philadelphia Pike and Route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



1,000 - 2,600 SF

## Lease - 4300 Devonshire Road, Harrisburg

- Great corner location at Devonshire and Colonial Roads
- The property is well-maintained
- The available space offers a reception/waiting area, offices, and an open area that can be utilized in many configurations and private restrooms



## 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 - Allentown Boulevard, Harrisburg

- Outdoor recreation could be ideal for this 17+ acres available for sale along busy Allentown Boulevard
- The property features over 2,200' of frontage
- Zoned Commercial Highway (CH) with multiple uses being possible

## Land Listings

Location	Acres	Zoning	Type
940 E. Main Street, Palmyra, Lebanon County	TBD	Highway Commercial	Lease
1700 Quentin Road, Lebanon, Lebanon County	TBD	General Commercial	Lease
<b>SOLD</b> - Kim Acres Drive & Aspen Drive, Mechanicsburg, Cumberland County	1.03	Highway Commercial	Sale
370 W. Main Street, Leola, Lancaster County	1.3 - 2.8	General Commercial	Sale/Lease
<b>Price Reduced</b> - 1301 Eisenhower Boulevard, Harrisburg, Dauphin County	1.77	ML-Light Industrial	Sale
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>Pending</b> - 7700 Derry Street, Harrisburg, Dauphin County	2.3 (lot 8)	Commercial District General	Lease
<b>Price Reduced</b> - 1345 Eisenhower Boulevard, Harrisburg, Dauphin County	4.46	ML-Light Industrial	Sale
Kriner Road, Chambersburg, Franklin County	4.64	Commercial Industrial	Sale
<b>Price Reduced</b> - 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
<b>Pending</b> - 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
Cherry Street (Lot #9) & Walnut Street, Highspire, Dauphin County	7.77	Residential Low Density	Sale
Route 441 and Orchard Drive, Harrisburg, Dauphin County	8.34	Single Family Residential District	Sale
<b>Price Reduced</b> - 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
Hanshue Road, Tract 2, Hummelstown, Dauphin County	9.42	Residential Agriculture	Sale
<b>Pending</b> - Eisenhower Blvd & Highspire Road, Harrisburg, Dauphin County	10.0	Commercial District General	Sale
<b>Price Reduced</b> - Allentown Boulevard, Harrisburg, Dauphin County	17+	Commercial Highway (CH)	Sale

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## Check Out Our Recent Deals

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



### **SOLD - 40 Landings Drive, Annville**

**40 Landings LLC** purchased 9,720+/- SF of warehouse space in Annville. Max Hauling, LLC will utilize the property for dump truck equipment maintenance and service. The Bill Gladstone Group of NAI CIR represented the seller, HRC Holding, LP, and Aaron Albright of NAI CIR represented the buyer.



### **SOLD - 75 E. Derry Road, Hershey**

**D & C Realty, Limited Partnership** purchased this 6,760+/- SF single story office building in Hershey from Hershey Entertainment & Resorts, the seller. The Bill Gladstone Group of NAI CIR facilitated the transaction. The property will be the future home of Family Practice Center. With more than 30 locations in Central PA, Family Practice Center provides comprehensive primary medical care to patients of all ages for acute, chronic, and preventive care – while respecting their clients' preferences, values, and culture. Find out more at [www.fpcdoctors.com](http://www.fpcdoctors.com).



### **SOLD - 4211 Elmerton Avenue, Harrisburg**

**Fernandez Realty Group, LLC** purchased this 5,202+/- SF single story office building in Harrisburg. His business, Latino Connection, will occupy the space. Latino Connection is Pennsylvania's premier marketing and communications agency that launches brands into the country's most powerful multicultural market. Learn more at [www.thelatinconnection.com](http://www.thelatinconnection.com). Bill Gladstone Group of NAI CIR represented the buyer and Roy Brenner of Landmark Commercial Realty, Inc. represented the seller in the transaction.