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What Does “Land Value” Mean to YOU



Written by Michael J. Rohm, MAI, CCIM (Edited by Brendan Wewer)

In discussions with colleagues, industry professionals, and even developers, I’m continuously reminded that “land value” means very different things to many different people. While it’s probably a fruitless goal to ask readers of this article to change the way they communicate about “land value,” I hope that some or most change the way they perceive or understand land value – especially as it relates to development risk.

It is important to realize that there are different phases of land development, and ultimately, different values of a piece of land that – in some cases – hasn’t even physically changed. When tasked with determining land value, we must recognize that land has various different phases of entitlement and improvement which influence value. Different people may be referring to vastly different concepts/conditions when discussing “land”.

It is also noted that land is just one component of the overall development flowchart. Although there are many subphases within each broader phase, the general real estate development flowchart is as follows:



Land entitlement, site infrastructure, and site improvements are the subject of this article. While these phases include subphases or “hurdles” of their own, it is important to recognize that risk decreases as each phase of development is cleared in the overall land development flowchart.

One of the most important takeaways of this article is that there are varying levels of “land value” depending on entitlements¹, site improvements, and site infrastructure. Many real estate professionals incorrectly utilize the phrase “land value” to describe land in any of the three (3) differing land conditions:

1. **Raw land** – not approved for development or improved with utilities or other infrastructure necessary for vertical development. This is the least valuable condition of land in the development continuum.
 - a. The value of raw land varies widely from developer to developer based on experience and risk tolerance.
 - b. Likelihood of rezoning or increasing development density to that of which is permitted by right is factored into a developer’s preferred acquisition price of raw land – each of which is difficult to credibly support.
2. **Entitled land** – otherwise known as **approved land**. Approvals are for a specific use. “Approvals” refer to the municipality’s interpretation of compliance for proposed development’s density as well as safety/access from public roadways, among other considerations. If a project meets the standards of the zoning code, it is often approved. This condition of land is *approved* for development but not *improved* with utilities or other infrastructure necessary for breaking ground on vertical development.
 - a. Municipalities (zoning hearing board, planning commission, and board of supervisors) determine whether to approve a given project based on the prospective development’s conformance to the zoning code and/or potential benefit to the community
 - b. It is *very* important to remember that if the land is entitled for a single-family home, but the highest and best use is for development of a retail building, the entitlements may not actually enhance the site value whatsoever. Entitlements are often granted for a specific use which is not always consistent with the highest and best use. That is, if the entitlements are too specific, they might not be valuable to an alternate developer.
 - c. For raw land to become entitled land, a property owner must undertake the risk and soft costs to go through the entitlement process. There is significant risk that a large residentially-zoned piece of raw land, for example, will have significantly less yield² than

¹ Entitlements are legal rights conveyed by approvals from governmental entities to develop a property for a certain use, intensity, building type or building placement. Entitlements can be a major factor in the ultimate use, viability, and value of your property.

² “Yield” in this context refers to the number of lots that development will be approved for. Although some developers are extremely accurate with their predictions of what a raw piece of land can yield, it’s impossible to know the yield until final land development plans are approved and recorded. Among many other examples of lots and density, yield can also refer to the amount of square feet that is able to be developed on an industrially-zoned parcel as well.

what will ultimately be approved by the municipality. Therefore, all else being equal, the value of a parcel that is approved for a subdivision (with known yield) is significantly more valuable than the same parcel that is not yet approved, in most circumstances. The difference between raw and entitled land is essentially impossible to reliably calculate and will vary from development to development based on entitlement risk. Theoretically, the difference is comprised of some combination of entrepreneurial incentive and the anticipated soft costs incurred for entitlement.

3. **Entitled and improved land** – otherwise known as **pad ready**. This condition is approved for development and improved with all necessary site improvements to break ground on vertical development
 - a. There are multiple subphases within this phase as well – including but not limited to grading, storm basins, constructing sidewalks, roadways, retaining walls, sewers and storm drains. “Pad ready” may mean different things to different people; however, this is a general description of an entitled and improved site.
 - b. For entitled land to become “pad ready,” a property owner must undertake risk as well as pay for site infrastructure and site improvements to prepare the site for vertical development. Unless a property owner has completed a phase 1 environmental or geotechnical survey, there is risk in this phase that either one of these may prohibit development or greatly increase the cost of development. Further, this phase includes extending public utilities to the site (or installing private well & septic), grading, and developing storm basin infrastructure. Depending on who you ask, this phase may also include curbing, asphalt pavement for the parking lot and roads, sidewalks, and lot lighting.
 - c. Based on the number of subphases in this phase of development, it is important to know what site improvements were complete when the property sold, if utilized as an “entitled and improved” comparable sale
 - d. Probably the most important reason as to why entitled and improved land is the most valuable of the three (3) alternatives is that *timing* is a more known variable. A developer or future owner occupant knows that they can break ground immediately and they can make alternative investment decisions accordingly. Most investment decisions and associated risk are determined based on opportunity cost which is much more of a known variable when land is entitled and improved for vertical construction.

To bring this all together, it is important to note that many developers are priced out of the current market unless they can provide all phases of land development in-house. Therefore, based on economic interactions in the current market, the most likely buyers of land parcels with above average entitlement risk are developers that can make their yield in the construction or leasing/stabilizing phases of development rather than the entitlement phase.³ That is, unless land can be acquired at a below-market price, the most likely buyers of development land are those that can general contract the project themselves. These firms can further make sufficient development yield on the leasing and stabilizing phases if they provide in-house brokerage services. The best example of this in our local market is probably The High Companies or perhaps Inch & Co. – one of the fastest growing companies in

³With construction costs rising dramatically, all else being equal, the cost of land must decrease for projects to be feasible; however, land owners are unwilling to accept lower prices. In the current cycle, rental rates for multi-family and home prices for single-family, for instance, have risen at a similar rate as construction. Therefore, land values have not changed significantly over the past few years; however, they will if construction costs continue to rise and rental rates and home prices flatten.

Central PA. Bottomline is that many developers are priced out of the market unless they can provide all phases of land development in-house.

Based on the above, it's my opinion that we as real estate professionals need to be better and more specific when discussing "land value":

- As **appraisers**, we need to get more specific when asking brokers or buyers questions about a land transfer to utilize as a comparable sale. Almost no land comparable sale will be in the same phase of development as the subject property – related to required site infrastructure, required site improvements, or entitlement risk. This must be quantified or qualified to produce a reliable comparison to any given subject property.
- As **brokers**, we need to get more specific when asking buyers, sellers, and municipalities what their criteria are for development. This will inform how to quantify cost and qualify risk that are necessary to incur prior to breaking ground on a given project.
- As **owners**, we need to get more specific when simply comparing sites that sold to our properties. As the article relays, there are seemingly infinite steps in land development and no two (2) sites are ever in the same stage of entitlement or site work. Ultimately, it is difficult to utilize comparable sales when justifying a preferred purchase price due to elements specific to any given subject site.

Comparable Sale #1



Classification: Office - Professional
Price Per Square Foot \$257.06

Address	2020 Technology Parkway	Sale Date	2/2/2022
County	Cumberland	Sale Price	\$45,000,000
Municipality	Hampden Township	Deed Reference	202203539
Grantor	Tech Park Associates LP	Parcel Number	10-14-0839-022
Grantee	UPMC Pinnacle Hospitals		
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Site Size	20.33	Parking	1021
Site Frontage	1,675	Parking Ratio	5.83
Topography	Slightly Sloped	LTB Ratio	5.06
Site Utilities	Public		
Site Comments	The site is a 20.33 acre, irregular shaped parcel along Technology Parkway. It is an interior parcel with 1,160' of frontage along Technology Parkway and 515' of frontage along Patriot Drive. The site contains two points of access along its frontage and 1,021 parking spaces. The site is nearby on/off ramp to Interstate 81. The site is slightly sloped and served by public utilities.		
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Building Size	175,055	Condition	Good
Above Grade	175,055	# of Floors	Three
Below Grade	0		
Construction			
Age	2003		
Bldg Comments	The building is a three-story, 175,055 square foot office. The site consists of private offices, on-site cafeteria, and walking trails. The office is was constructed in 2003 and sold in good overall condition.		
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Zoning Code	O-P Office Park		
Description	The purpose of the O-P, Office-Park District is to provide a suitable environment for business, professional, financial and governmental offices adjacent to or conveniently accessible to major transportation corridors. Office-Park commercial uses should be integrated with the other uses within the office park development by architectural controls and uniform design of such external features as signage, lighting and walkways.		
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Other Comments	Landmark Commercial Realty assisted with the transaction. Specifics related to the transaction are confidential. The transactional information was procured from public records.		
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Comparable Sale #2



Classification: Industrial - Manufacturing
Price Per Square Foot \$63.75

Address	1551 Mount Rose Avenue	Sale Date	1/17/2022
County	York	Sale Price	\$10,750,000
Municipality	Spring Garden Township	Deed Reference	2708-1986
Grantor	Mt Rose Avenue Limited Partnership	Parcel Number	48-000-14-0095.D0-00000
Grantee	Triple Net Invs LXXXVI, LLC (JG Petrucci)		48-000-14-0095.E0-00000
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Site Size	13.89	Parking	350
Site Frontage	240'	Parking Ratio	2.08
Topography	Slightly sloped	LTB Ratio	3.59
Site Utilities	Public		
Site Comments	The site is a two parcel contiguous assemblage containing 13.89 acres. It is an irregular shaped, interior parcel with 240' of frontage along Mount Rose Avenue and 495' of frontage along East Prospect Street. The site contains two points of access along its frontage and approximately 350 parking spaces. The site is nearby the on/off ramp to Interstate 83. The site is slightly sloped and served by public utilities.		
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Building Size	168,632	Condition	Average
Above Grade	168,632	# of Floors	Two
Below Grade	0		
Construction			
Age	1979		
Bldg Comments	The building is a two-story, 168,632 square foot industrial light manufacturing building. The building contains office space, warehouse, and six dock doors. The building was constructed in 1979 and sold in average overall condition.		
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Zoning Code	IP Industrial Park		
Description	To purpose is to encourage the development of industrial properties and to provide suitable land for light industry and industrial parks.		
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Other Comments	No brokers were involved in this transaction.		
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Comparable Sale #3



Classification: Land Sale - Commercial
Price Per Square Foot \$.00

Address	Eisenhower Boulevard	Sale Date	1/12/2022
County	Dauphin	Sale Price	\$290,000
Municipality	Swatara Township	Deed Reference	20220001322
Grantor	VRANICAR MINERVA TRUST VRANICAR DARLENE	Parcel Number	63-062-102
Grantee	KNAUB RABON ENTERPRISES		

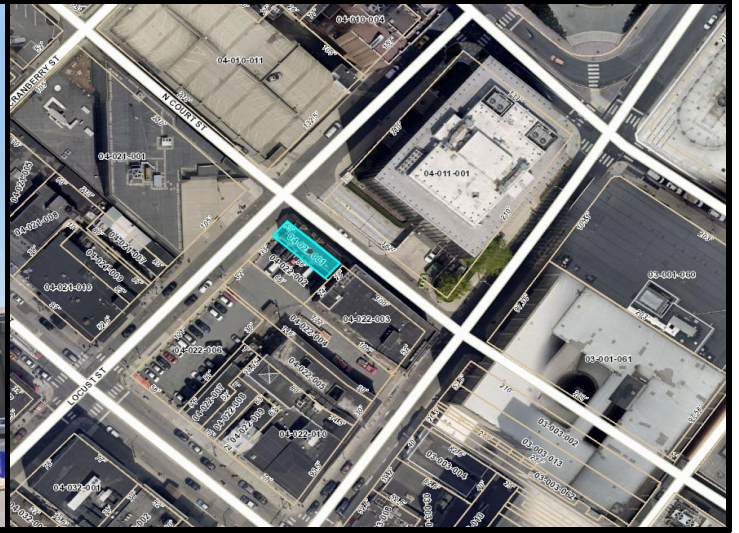
Site Size	5.30	Parking	
Site Frontage	705'	Parking Ratio	0.00
Topography		LTB Ratio	0.00
Site Utilities			
Site Comments	The site is a 5.30 acre, irregular shaped parcel along Eisenhower Boulevard. It is an interior parcel with 705' of frontage along Eisenhower Boulevard.		

Building Size	0	Condition	
Above Grade	0	# of Floors	
Below Grade	0		
Construction			
Age			
Bldg Comments			

Zoning Code	C-G, Commercial - General District
Description	To provide for a variety of commercial uses along major highways where a variety of commercial uses are already present.

Other Comments Brokered by Tom Posavec and Roy Brenner with Landmark Commercial Realty.

Comparable Sale #4



**Classification: Retail -
Price Per Square Foot \$67.93**

Address	213 Locust Street	Sale Date	1/12/2022
County	Dauphin	Sale Price	\$250,000
Municipality	City of Harrisburg	Deed Reference	20220001433
Grantor	Mishkin Isacc	Parcel Number	04-022-001
Grantee	Newberry Partners, LLC		
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Site Size	0.02	Parking	0
Site Frontage	85"	Parking Ratio	0.00
Topography	Level	LTB Ratio	0.24
Site Utilities	Public		
Site Comments	The site is a 0.02 acre, rectangular shaped parcel along Locust Street. It is a corner parcel with 20' of frontage along Locust Street and 65' of frontage along North Court Street. The site does not contain on-site parking. The site is nearby the on/off ramp to Interstate 83 and the Susquehanna River. The site is generally level and served by public utilities.		
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Building Size	3,680	Condition	Average
Above Grade	3,680	# of Floors	Three
Below Grade	0		
Construction	Brick		
Age	1900		
Bldg Comments	The building is a three-story, 3,680 square foot retail building. The building was brick masonry constructed in 1900 and sold in average overall condition.		
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Zoning Code	"DN" Downtown Center		
Description	To promote a balanced mix of retail, office, service, entertainment, institutional, and high-density residential uses in the downtown. To promote expansion of the Downtown Center around the Harrisburg Transportation Center and further east along Market Street.		
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Other Comments	Broker: NAI, Daniel Alderman 717-761-5070. Buyer is Harristown who will partner with Don Mowery on the project. The building will become a three-unit apartment building, according to Harristown. According to Brad Jones, Harristown will renovate the 3,300-square-foot building into three, two-bedroom units. He expects the work to begin in February and be completed in the fall.		

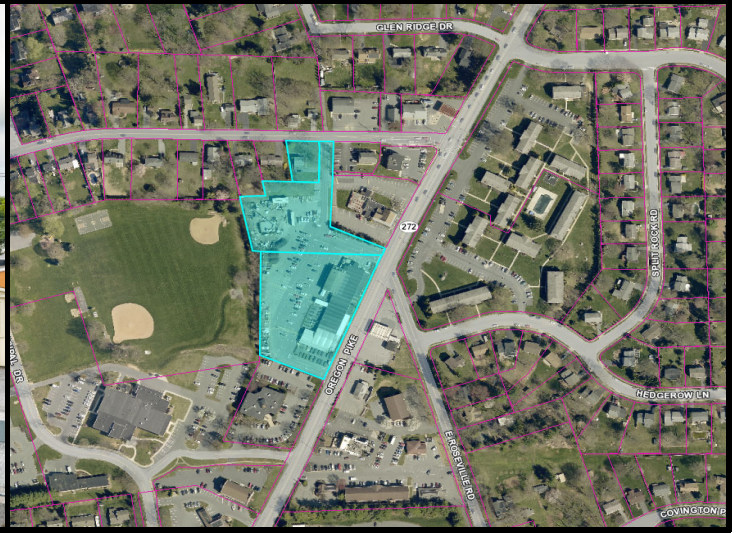
Comparable Sale #5



Classification: Apartment/Multi-Family - Garden Style
Price Per Square Foot \$208.33

Address	12-13 South 19th Street	Sale Date	1/10/2022
County	Cumberland	Sale Price	\$1,360,000
Municipality	Camp Hill Borough	Deed Reference	202202886
Grantor	Bane Investments, LLC	Parcel Number	01-22-0536-137
Grantee	DAPS Properties 1, LLC		01-22-0536-138
Site Size	0.56	Parking	0
Site Frontage	215'	Parking Ratio	0.00
Topography	Slightly Sloped	LTB Ratio	3.74
Site Utilities	Public		
Site Comments	The site is a two parcel contiguous assemblage containing 0.56 acres. It is an irregular shaped, interior parcel with 215' of frontage along South 19th Street. The site is located nearby the on/off ramp to Route 15 and Interstate 581. The site does not offer any on-site parking, only off-site street parking. The site is slightly sloped and served by public utilities.		
Building Size	6,528	Condition	Good
Above Grade	6,528	# of Floors	Two
Below Grade	0		
Construction			
Age	1980	Renovated	2021
Bldg Comments	The site is improved with two 4-unit garden style apartment buildings. Each building contains 3,264 square feet and four units. The units consist of two bedrooms, one full bathroom, luxury vinyl plank floors, and granite countertops. A coin operated laundry room is located in the basement floor. The buildings were constructed in 1980 and recently renovated in 2021. The buildings sold in good overall condition.		
Zoning Code	LDR, Low Density Residential District		
Description	To provide for low-density residential neighborhoods that are primarily composed of single-family detached dwellings.		
Other Comments	Broker: Marcus & Millichap Craig Dunkle 215-531-7046. The property is an 8-unit multi-family complex which translates into \$170,000 per unit. The in-place cap rate was approximately 6.80%.		

Comparable Sale #6



Classification: Land Sale - Commercial
Price Per Square Foot \$.00

Address	1850 Oregon Pike	Sale Date	1/7/2022
County	Lancaster	Sale Price	\$2,400,000
Municipality	Manheim Township	Deed Reference	6652911
Grantor	Stobro Co LP	Parcel Number	390-22832-0-0000
Grantee	RNJ Washes LLC		390-19818-0-0000
			390-20500-0-0000
Site Size	3.23	Parking	200
Site Frontage		Parking Ratio	7.87
Topography	Level	LTB Ratio	5.54
Site Utilities	Public		
Site Comments	The site is a three parcel contiguous assemblage containing 3.23 acres. It is an irregular shaped, interior parcel along Oregon Pike and East Rossville Road with 475' of frontage along Oregon Pike and 135' of frontage along East Rossville Road. The site contains two points of access along its frontage and approximately 200 parking spaces. The site is nearby the on/off ramp to Route 30 and Interstate 283. The site is generally level and served by public utilities.		
Building Size		Condition	Average
Above Grade		# of Floors	Two
Below Grade	0		
Construction			
Age	1930 & 1964		
Bldg Comments	The site is improved with two buildings containing 25,410 square feet. The main building is a two-story 24,354 square foot retail building. The building was occupied by Stauffers of Kissel Hill prior to becoming vacant. The second building is a two-story, 1,056 square foot residential building constructed in 1930. The buildings sold in average overall condition.		
Zoning Code	B-2, Business District		
Description	It is the purpose of this district to provide for neighborhood businesses within existing neighborhood areas.		
Other Comments	Broker: Jeffrey Kurtz 717-293-4477 The buyer will be developing a portion of the site into a Riptide Car Wash. The project will include demolition of the existing 22,000+/- SF of building area to be redeveloped into a 5,200 SF car wash. There will be surplus land after the redevelopment, however, it is unknown what the balance of the site will be utilized for. This will be Riptide's 2nd car wash in Lancaster County.		

Comparable Sale #7



Classification: Retail - Neighborhood Shopping Center
Price Per Square Foot \$166.24

Address	4807 Jonestown Road	Sale Date	1/3/2022
County	Dauphin	Sale Price	\$16,000,000
Municipality	Lower Paxton Township	Deed Reference	20220000192
Grantor	Room One Corporation	Parcel Number	35-053-109
Grantee	Empire Liberty Square LLC		35-052-223 35-053-110 & 35-053-112
Site Size	4.66	Parking	250
Site Frontage	2,350'	Parking Ratio	2.60
Topography	Sloped	LTB Ratio	2.11
Site Utilities	Public		
Site Comments	The site is comprised of four noncontiguous but nearby parcels along Jonestown Road. The site contains 545' of frontage along Jonestown Road, 625' of frontage along Earl Ave, 850' of frontage along Queen Avenue, and 330' of frontage along Crown Avenue. The site is nearby the on/ramp to Interstate 83. The site is sloped and served by public utilities.		
Building Size	96,246	Condition	Good
Above Grade	96,246	# of Floors	Two
Below Grade	0		
Construction	Brick		
Age	1968,1988, 1989		
Bldg Comments	the site is improved with three neighborhood shopping centers containing 96,246 square feet and 61 office suites. The buildings consist of retail, professional office, and medical office. The buildings were sold in good overall condition.		
Zoning Code	CG, General Commercial District		
Description	To provide for a variety of commercial uses along major highways where a variety of commercial uses are already present and to provide for a wider range of commercial uses than the CN and V districts, including uses that are more auto-related (such as gas stations).		
Other Comments	Listing Broker: Matt Wolf and Robert Holland, The Kislak Company, Inc Buyer Broker: Bo Mangam, Landmark Commercial Realty		