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Finding Ways To Increase Income

We are certainly all looking for ways to increase income. Sometimes the possibilities for changes are right before us. If you now own a commercial property or an apartment complex, you might try looking at the property with "new eyes" to see if you can spot any changes that could make you some extra rental income.

Of course, if any structural changes need to be made, or changes that would be affected by zoning regulations, etc., proper permits need to be secured, and contacts with the government agencies that would be involved should be made in advance.

Sometimes, owners of rental properties fail to see some obvious money making opportunities in their own buildings. Anytime additional rents can be added without any basic changes or with fairly inexpensive changes, it is almost like finding the money. When a building comes up in the sale market, potential buyers and real estate brokers often look for these "Revenue Enhancement Changes" that can be made, and were overlooked by the seller. These might be the things that make the sale possible.

Changes

- In an apartment building, there often are storage rooms that are rented out at nominal amounts to tenants. Can these be converted to a better income unit than the original use? Can this space be changed to office space for a doctor, accountant, or other small business? You might be able to upgrade this type of space from $50 a month to $500.
- A parking area or garage might be reviewed. There may be odd shaped spaces and corners that are not suitable for parking. Sometimes the entire space can be redesigned, freeing up space that could be used for additional parking, or for lease for another use. The only expense might be in painting or "restriping" the garage floor. The additional area could be leased to an auto products dealer, car wash services or an auto detailer. In the right kind of building, the space might be desirable for a newsstand or other specialty retailer.
- In office buildings or other commercial buildings, there might be storage rooms, sub-basements, odd shaped areas under a stairway, etc., that can be cleaned out and turned into rentable space. If storage space is absolutely needed to operate the building, can it be

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moved to a self-service storage facility off of the premises? The rental space off site may be much less expensive to rent than the potential income from the freed-up space. Some of the space in basements or in building interiors might be windowless, but this could appeal to a tenant needing special security (jeweler, coin dealer, stamp or antique dealer).

• In one property, a floor with very high ceilings (about 20 feet) was turned into two floors by adding a new floor in-between. This made both floors have ceilings with normal heights. One whole floor of rental space was added without a large expenditure.

• In a commercial property with a restaurant on the ground floor, an inside refuse storage area used for all of the tenants was changed by moving these garbage collection facilities outside the building. Then that inside garbage area was converted to expand the restaurant and for storage for the restaurant's food inventory. That space was earning no rent at all before, but then began generating $2,000 a month income for the owner.

• Look at basement space in office buildings. There are often spaces being used by maintenance staff that can be consolidated with hallways and converted to conference rooms or small offices.

• The areas of a building that are used for centralized mechanical systems for the building might be consolidated to add a small rentable space.

Tour your own property with the goal of finding those additional areas that can add new rental income without expensive additions to the property. Those spaces are there in many buildings. It just takes observation to bring them out and utilize them. ❏

Agreement Between Owner And Developer

The acquisition and improvement of land is a large-scale operation and requires large amounts of capital. This has created methods of land acquisition that gives the developer access to and control over a large enough tract to make development economical without requiring an initial outlay of all of the capital necessary to acquire such a tract.

From the point of view of the landowner, the disposal of a large tract at a good price may require a formula that will encourage the developer to commit improvement and development money for part of the tract that will build future value into the entire tract.

This may be accomplished by the following:

• The developer sets up a master plan that sets forth the general scheme of development and submits it for the approval of the owner.

• The developer and owner enter into an agreement setting forth the acreage prices for the entire property.

• Owner and developer agree on the number of years over which the full development is to be completed.

• To protect the owner against freezing of his property, the developer firmly commits to buy a predetermined number of acres each year.

• If the developer fails to meet this schedule, the owner is released from his commitment.

A Development Agreement

Another way of handling the problem is for the developer to share the net profits from the land development with the landowner. This can be done by a "land development agreement" in which the developer agrees to perform the platting, the laying out, the installation of lot improvements, and the promotion of the subdivision. The landowner agrees to accept a percentage of the sales price of each lot, with a fixed minimum guaranteed. For example, the developer agrees to pay net to the landowner 25% of the sales price of each lot sold, with a minimum of $50,000 per lot.

With this kind of arrangement, it is important to protect the landowner from finding his land cluttered up with liens left by a subdivider who became insolvent. The landowner should consider confining the developer or subdivider to a small tract of land at a time and give him "rolling options" to acquire additional parcels at intervals over a period of time. Failure to keep up with this purchase program results in loss of future options. The land that has been optioned but not purchased is not subject to liens against the developer.

A Liability for Not Proceeding

In one case, a jury found that a village breached its contract with a real estate developer calling for the village to acquire property and convey it to the developer for construction of apartment houses and a shopping center, all conditioned on obtaining financing from HUD. The village repudiated its explicit undertakings, to acquire and convey property to the developers. HUD had granted the main application and was in the process of considering the other grants involved, so the village could not back out of its promise. [Heritage Commons Partners v. Village of Summit, 730 FSupp 821, (ND Ill. 1990)] ❏

Inspection Of Investment Property

When a buyer makes an offer on an investment property, it is usually only after a thorough inspection of all of the data that is available on the financial records of the building. Certainly, a good physical inspection is also made.

Some investors pay more attention to the data than the structure. The physical inspection of the property could be as important or more important than the rents and expenses. By thoroughly inspecting potential investment property, a buyer may be able to:

- Work out a better price.
- Get ready for any upgrading or maintenance expenses.
- Avoid catastrophic repair bills for detectable problems.
- When actually purchased, get a higher return on the investment.

Where to Start

First, the investor needs to know what experts to call. He needs to know what needs to be inspected and how to do it. The property must be verified as physically sound and is a worthwhile investment.

There are some broad categories of problems that investment properties are subject to, and the type of expert that is needed for the inspection.

- **Soil Conditions.** When a property is located on certain types of land, a professional soil engineer or geologist should be called. Property could be low lying or reclaimed land; a former landfill or dump area; on hilly or mountainous terrain; located at lakeside or seaside; has structures or piers, pilings, stilts, or other unusual foundation conditions.
- **Drainage.** If the property is located within a flood plain area, it should be carefully examined by a civil engineer. The buyer can check basements and interior walls for signs of water damage.
- **HVAC.** Representatives of the companies that manufactured or installed the heating, ventilating, and air-conditioning systems. Elevators and electric systems should be inspected by professionals in those fields.
- **Roofing.** A roofing consultant or structural engineer should be called to determine age, condition, ability to withstand loads, etc.
- **Pests.** Pest control companies are able to check for termites and other damage-causing pests.

Government Records

Check the local building department and see what permits were issued and when. Some records may also show when fire inspections or health and safety inspections were made. Any violations will be on record.

The plans and specifications of the building may also be on file. These may contain the names of the original architect, engineer, contractor and developer. The investor may wish to contact one or more of these if any questions need an answer. ❏

Land For Residential Development

Land investment is much more complex than it was a few years ago. Because of expanded regulation and environmental concerns, the development process is much longer and so more expensive. The time from the initial raw land purchase until final sale of completed homes may be as long as 10 years.

Despite this, the purchase of raw land or partially developed land has the prospect for big profits without the burden of active property management.

The term “subdivision” describes the legal and physical steps taken by a developer to convert raw land into developed land. The most common example is the residential subdivision, because new homes usually precede (and create the need for) retail, commercial, and industrial development.

The subdivision process has three stages:

- Land in its raw or natural state.
- Semideveloped land, usually divided into tracts of 20 to 100 acres, including roads and utilities.
- Developed or subdivided land, platted into individual sites for homes as well as commercial structures.

While many developers may wish to work with land tracts as large as 500 to 1,000 acres, such large tracts are not often available. The reason is that land comes on the market in an uneven pattern. The sellers may be farmers, real estate speculators, and others. They may be motivated to market their properties at different times for many reasons. A land investor or syndicate, holding a large parcel of land and ready to sell when a developer is ready to start work can often get a premium price.

What if the developer is considering the purchase of a 45-acre site that can be developed at an average density of four single-family lots per acre? Five acres would be necessary for a frontage road and other purposes, leaving 40 acres for development.

From the developer’s point of view, the subdivision process identifying the cost of the various elements that go into the development of the land can be helpful to the land investor in determining how to price the land when it is finally ready to sell. ❏

Investment Planning For Everyone

A prospective investor may have a problem getting started with a real estate investment because of the great variety of properties that are out there. They may be fearful that someone will "sell" them something - something that is wrong for them.

An answer to these problems can be an interview with an interested professional real estate broker who can act as a real estate investment counselor. Each prospective investor can be interviewed in depth to find out specific needs in an income property. At the same time their needs are being evaluated, the broker will also communicate what benefits are available in various properties and how to identify them.

Some considerations should be given to the risk of loss for each age bracket of investor. Should an older investor purchase a property with the smallest down payment and highest leverage position? This will limit cash flow and may cause the property to have a "negative" cash flow. Is this what they want– or do they want cash flow from the property?

How about the younger couple? Are their objectives for long-range estate building or for current cash flow? Would they be more willing to take chances with a marginal investment that might bring big returns later?

These answers must be decided by each investor for himself or herself. But, only after enough information has been furnished so that an intelligent decision can be made.

When a new investor has a better idea of the type of property that will do the right job for him/her, or them, then and only then should they be exposed to the market place and shown specific properties. Now the investor or investors can evaluate the various benefits and risks for the information shown on each property and apply the information to their own situation.

What is right for you? A new rental unit? A strip center? A one-hundred unit apartment property? An Outlet Center? Perhaps you should have five or six apartments or commercial properties in scattered locations. Real estate counseling can show you that you can choose which is right for you and know the reasons why it is right! ❏

Help With Investment Real Estate

When you have searched for new real estate investment opportunities, with values that have been changing, you know that finding and evaluating them is becoming more sophisticated and complex. More investors are turning to real estate consultants as a means of providing a sounding board for their ideas as well as expertise in the planning and construction stages for their projects.

Today's investor in real estate must have a grasp of market conditions and potential that is usually beyond their own available time to attain. Investors need assurance about the true condition of the market. With increased competition, the market place is becoming more complicated.

Feasibility studies are essential for commercial office, industrial, resort and hotel investors. With this kind of information, planning is better and there is less chance for error.

Real estate investing is not just looking for the structure and the land. It is investing in the type of property that you want at the price and terms that suit you at the time you want to make the purchase.

Our office is open and ready to assist you. We have been experts in property values in this area for a long time. We can help you with enough information so that you can make your own decisions on the value of property either in listing your present property for sale or in purchase of another. If you wish to consider structuring a tax-deferred exchange into that next property, we can guide and aid you with that transaction.

Let us guide you in your investments. ❏

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