Rob Cassam
MBA, CCIM
Owner-Broker (NC,SC)
704-533-3074

CAROLINA REALTY ADVISORS

1001 East Blvd. Suite B • Charlotte NC 28203
Phone: 704-442-1774 Ext.100
Efax: 800-571-7536
rob@charlotteNCproperty.com
www.charlottencproperty.com/commercial

The Master Lease–A Seller Guarantee

When new development is occurring in a market and developers are anxious to sell when the construction is complete, use of a master lease may facilitate a sale before the lease-up period is ended. A master lease is a form of seller guarantee that has several specific goals:

- It enables the seller to negotiate a price that reflects a stabilized occupancy and the long-term potential of the property.
- It assures the purchaser of a guaranteed level of income over an initial period and so assures for payment of debt service and equity dividends.
- When an appraisal is a necessary prerequisite for the purchase, the master lease enables an appraiser to value the property without regard to the initial vacancy rate (although certain adjustments may be required).

When a seller agrees to become a master tenant (and so be responsible for the agreed rental regardless of the actual occupancy level), the seller usually insists on having the management contract for the property for the duration of the master lease to assure an aggressive leasing effort. This also enables the seller to earn leasing commissions and usually is agreeable to the purchaser, which also is interested in achieving full occupancy as soon as possible.

The Terms That Protect Buyer And Seller

The essential purpose of a master lease is to assure the buyer that it will receive a specific amount of cash flow throughout the master lease term. The obligation on the seller can be structured in one of several ways. The seller may guarantee that a certain occupancy level will be maintained or that gross rents will not decline below a specified amount. The lease should contain protective provisions for the buyer; for example, the seller (as manager) should not be able to reduce rents below market merely to achieve a higher occupancy rate. Similarly, the seller-manager should not be able to offer additional and costly amenities in order to increase gross rental revenue. The term of the master lease usually will approximate the estimated time for the property to attain stabilized occupancy. Finally, the obligation of the seller should be secured through an escrow account, letter of credit or other form of guarantee. ❏

July 2021

This publication is not a solicitation but is an information service from this office.

In This Issue

Adequate Parking Is Essential For Commercial Property

Parking is not just important at your commercial building or apartment property; it is absolutely crucial for any business. Without it, potential tenants and their customer will reject the building. Parking spaces may be located below, at, or above ground level but wherever located, there must be enough spaces to accommodate the realistic, projectable needs of the particular building.

What Is Adequate Parking?

What determines adequate parking space depends on the kind of building involved and its location. For example, there should be three or three and a half parking spaces per 1,000 square feet of building space at inner city office buildings, according to experts in the field. On the other hand, for office buildings located in the suburbs, there should be at least four parking spaces per 1,000 square feet of building space.

For an industrial or manufacturing building, the preferred parking ratio is two to three spaces per 1,000 square feet of building space. For warehouse and distribution buildings, one parking space for each 1,000 square feet of building space is usually considered ample, but these layouts must include turn areas for large trucks.

For multi-family housing buildings, the square footage is less significant than the number of units in the building. One or two parking spaces for each housing unit covers most needs in suburban locations, with less parking spaces needed for inner city residential buildings because of the availability of extensive public transportation.

Zoning Codes

Local zoning codes typically include parking requirements for newly built commercial properties. Although the ratio of parking spaces to square footage of building varies from city to city and from suburb to suburb, here are typical requirements:

- Medical facility– 6 parking spaces per 1,000 square feet.
- Restaurant– 10 parking spaces per 1,000 square feet.
- Furniture store– 2 parking spaces per 1,000 square feet.
- Office buildings and retail stores– 4 parking spaces per 1,000 square feet.
- Manufacturing facility– 3 parking spaces per 1,000 square feet.

Real estate developers emphasize that zoning requirements are minimum requirements. A survey found that 42% of developers prefer to add more parking space than local zoning calls for.

Traffic Flow

An important element to consider in determining parking needs is the normal flow of traffic at the particular building. For example, at office buildings, traffic peaks at the employee arrival and departure times (8 a.m. to 9 a. m. and 4 p.m. to 5 p.m.). But clients and visitors, who typically arrive later (10 a.m.) and leave earlier (3 p.m.), have to be able to find parking space within a reasonable distance from the building's entrance.

Shopping centers have a more dispersed flow of customer traffic, with employee parking usually situated in a particular area at some distance from the main entranceways to the stores. Parking spaces for handicapped persons are specifically designated and located near entrances, as required by law.

Industrial buildings may operate with three shifts of workers. And, while visitor parking is usually not an important factor, the overlapping of arriving and departing employees requires careful consideration to calculate an adequate number of parking spaces.

The Older Buildings

Many older buildings (especially those built before World War II) once had ample parking. Over the years, this space either has been physically diminished through building additions or the sale of land, or is now just inadequate due to increased auto ownership and usage. To meet current demands for additional parking space at existing buildings, property owners should consider the following options:

Narrow the stalls. Make each stall 7.5 to 9 feet wide (instead of 10 feet). In these days of compact and sub-compact automobiles, this can be done, says the experts, and increase the number of parking spaces by 15%. The cost: a few gallons of paint.

Provide angle stalls. Eliminate right angle parking stalls and re-set them at a 65-degree angle. This maximizes the available parking space at a minimal changeover cost.

Suggestion: Study the vehicles driven by your tenants, employees, and other regular parking space users. If compact cars are popular, designate a special section for their use (you'll immediately gain parking spaces by downsizing individual spaces in that section). Caution: Vehicle preferences do

(continued)

change. Don't expect compact and sub-compacts to be the popular size forever. Provide some leeway for bigger vehicles gaining popularity over smaller vehicles. For example, SUVs, vans and pick-up trucks are popular now. Unfortunately, they require larger parking spaces than some other automobiles.

Create off-site parking. A satellite parking lot, with shuttle bus service, works well at airports and large amusement parks. The idea might also work well for shopping centers and apartment complexes.

Add Rooftop Parking. This is possible at just a few locations.

Reduce landscaped areas. Eliminate grass, shrubs, and flowers now decorating a parking lot. Determine whether paving these areas will increase the lot's capacity.

Construct a parking garage. Take a portion of the existing surface parking lot and construct a multi-floor parking garage. This not only provides an excellent long-term solution, but also adds value to the entire property. And there may be potential income from renting out extra spaces for use by nearby apartments or businesses. ❑

Negotiating Team For Commercial Leases

In the corporate world of today, a negotiating team will negotiate commercial leases. This team may consist of legal counsel, finance department representatives, outside specialists such as real estate brokers or tenant representatives, design and engineering consultants, and others.

In today's market, corporate tenants with high credit ratings, who are willing to make long-term lease commitments negotiate from a strong position. Therefore, corporations that formerly treated real estate transactions in a matter-of-fact way have now developed detailed real estate negotiating strategies. The corporate tenant sees these negotiations as a way to cut costs within the company (whether upsizing or downsizing).

Landlords, developers, and brokers must be aware of this new style of negotiation. While the real estate executive plays a key role in developing the strategy, the other parties must be ready to respond quickly to requests for information and be prepared to discuss issues that rarely if ever arose in the past.

Request For Proposal

The document that best illustrates the new negotiating process is the Request For Proposal (RFP), sent to property owners. The RFP incorporates the specification for rental rates, free rent, up fitting, operating expenses, options, cash incentives and other "money clauses" that the corporation intends to negotiate. A short list of prospective sites or buildings is then prepared based on the initial responses to the RFP. The corporate real estate executive (often with the aid of a real estate broker) will negotiate to obtain the best deal with the prospective landlords.

The RFP usually contains a number of items that are nonnegotiable–for example, amount of usable square feet, geographic area, lease term, expansion option, parking facilities, and security. On the other hand, many items remain negotiable, such as rent rate, concessions, rent escalations, cash inducements, and amenities. The parties should understand from the outset that failure to obtain a non-negotiable term could kill the deal for the tenant. Other items may be "throwaways" that could be modified or omitted from the lease.

Example: A corporate tenant may lack the capital funds to improve the leased premises, and so may be willing to pay a higher rental rate or extend the lease term in exchange for a larger allowance for improvements. Alternatively, the tenant may be willing to fund all or part of the improvement costs in exchange for a lower rental.

Bargaining position in Negotiations

Although it is obvious that any negotiating process involves give and take by both sides, corporate real estate executives have learned the importance of understanding the strengths and weaknesses of their bargaining position as well as that of the landlord. Within reason, these tenants are assured of getting whatever is needed if the bargaining team is aware of the options and takes carefully calculated risks based on solid information. ❑

A Land Development Agreement

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 went broke. 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 With Development. 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)] ❑

Rob Cassam
MBA, CCIM
Owner-Broker (NC,SC)
704-533-3074

1001 East Blvd. Suite B • Charlotte NC 28203
Phone: 704-442-1774 Ext.100
Efax: 800-571-7536
rob@charlotteNCproperty.com
www.charlottencproperty.com/commercial

CAROLINA REALTY ADVISORS