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Losing Money? It Could Be A Good Investment

Real estate activity is picking up throughout the country. Commercial real estate has been less affected than the loan problems in homes. If fact, apartments have benefited. But in investment properties, when cash expenses are more than cash receipts, there is negative cash flow. Most investors avoid properties where this is the situation, unless there are strong underlying economic factors that indicate the cash flow can become positive.

- One six-tenant office building was leased out several years ago. After a few years operating expenses rose sharply and exceeded the gross rental income. However, the leases on all the units will soon expire and there are no renewal provisions. That means that there will be new leases negotiated. Leases that provide for higher rentals will replace the old below-market leases. The building's negative cash flow will soon become positive.

The underlying economic factors in this example clearly indicate that this office building can easily become a good investment. Just because it has a negative cash flow now is not a good reason to avoid considering the purchase of the property.

Light Manufacturing

- Another building is leased as a light manufacturing facility. However, the "best use" of the property is determined to be as a series of small research and development offices or as a conversion to condominium apartments. The negative cash flow from the present use as a manufacturing facility can be turned into positive cash flow when the property is put to its "best use."

The sole consideration of negative cash flow would have led an investor to avoid this property. In light of further consideration of the underlying economic factors, the underutilized property might well be an attractive investment opportunity.

Vacant Land

- A vacant lot in the center of town generates only a small amount of income when it is ➟

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used to sell Christmas trees. But the lot costs money to hold (property taxes and clean-up expenses). There is a significant negative cash flow. But it may be one of the best real estate investments. The unrealized appreciation of market value may far exceed the tax and maintenance expenses so that the investor will profit when he sells the lot, even though he has experienced "negative cash flow" all the time it was held.

Always look at the reasons why there is negative cash flow from income property before you invest. The turn-around possibilities may be readily apparent. Don't miss out on an otherwise good investment simply because it currently isn't making money. ❑

Profits From Investing In Land

Land is always a good investment for the long term. With prices down in the recession, land might be better now**.**

When investors made real estate investments, one consideration in past years was the tax shelter of certain investments. Now, with fewer shelters, real estate investments must make sense as a dollars and cents return on capital, and must stand alone as a good business move. Land has never been a tax advantaged investment and should be worth considering as a way to increase wealth. The trend has always been up.

In most cases, the land investor spends money each year with virtually no income from the investment. He has expenses of property taxes, clean-up and maintenance costs, expenditures for travel to check on the property. The opportunity for income from the land is minimal.

When an investor puts money into land it is for the potential payoff when the land is sold. It is a very worthwhile investment when the land's price skyrockets and the "cheap" land becomes highly treasured property.

Types of Land

Land investments come in three major categories. The ultimate payoff for each of these categories can vary.

Raw Land. Unzoned rural land in its natural condition. This is usually in a remote area. It would typically take many years to appreciate significantly in value. The price to purchase is quite modest, and the costs to own it are small. The investor in this land will usually purchase hundreds of acres and then wait **20, 30** or **more years** to see a chance to sell at a profit. However, when that time comes, the profits can be incredible. The Florida land boom of the **1920s** is an outstanding example.

Pre-development Land. This is land located closer to built-up sections and is located where there is a realistic expectation of development in the near future. It may already have basic zoning and could have utility service. The prices are higher than for raw land, and the costs to hold it are higher. But unlike raw land, the payoff can be much sooner. The smart investor picks an area where he has identified a "path of growth" and where commercial, industrial, and residential development will soon happen because it is needed there.

Infill Land. This land is between raw land and pre-development land in the sense that it offers a different kind of investment expectation. It may have been passed over for "easier" parcels during the first phase of an area's development. It could be located in a different direction than the main path of growth of the area.

When a community was originally developed, the suburbs may have extended to a commuting range of **30** to **40** miles. Later, after better highways were developed, commuters may be willing to travel **10** to **20** miles further. These improved highways created new uses for thousands of acres of land. This is land that can be used for homes, shopping centers, industrial or other commercial uses.

Look in Your Own Area

The price and value of land varies greatly throughout the country. In some parts of the country there is practically no raw land available. In other sections there is plenty. Some areas have pre-development land, but it is so obviously "in the path" that the prices are already very high for the investor.

In some areas, pre-development land may take a skilled, experienced investor to recognize just what can be used soon. The investors who takes the time to study and can recognize what others don't yet see, will be the one who makes these profits. ❑

Contact Your Property Manager *Before* Your Investment

If you are about to acquire an income property, consider contacting the management company in advance. The ability to estimate income and expenses and a keen knowledge of the market makes the manager a valuable asset during the preacquisition process. The property manager has the background necessary to provide significant assistance in determining both the location, desirability and economic feasibility of a property.

The usual way that a property management company comes upon the scene is when the owner of a building makes a contact. Often the owner has just acquired the property through a purchase or exchange, then looks for a manager.

Inspection And Evaluation

When evaluating a property, the property manager should perform a comprehensive inspection of the physical property, thoroughly review current leases and past maintenance records, and, when appropriate, talk with the on-site staff, and current tenants and neighbors.

Preliminary market analyses and pro formas should be completed during the preacquisition stage to determine the property's operating costs and to project possible investment return. These analyses will help establish whether the property will perform according to the owner's investment objectives, or whether the property is too risky for acquisition.

The Rent Structure

When the property is acquired, the management staff will know in advance what can be done with the rent structure. The goal will be to increase the rents to market levels and/or the legal maximum. Tenants with leases can not be given rent increases if their leases prohibit them, but the rent for vacant space or for property with expiring leases may be increased. ❑

A Three-Party Exchange

In a two-way exchange, the owner may use a deferred exchange, which sells the property for cash, which is then held by an intermediary until the owner chooses a replacement property. That property is then purchased for the owner by the intermediary. This may not be satisfactory because of the time limits in this type of exchange.

Often a tax-free exchange of real estate is a two-party transaction. The owner exchanges some appreciated-in-value business or investment property for similar property, and there is no tax on the trade. But suppose that owner cannot find any similar property that he can take in a tax-free exchange. He has a willing purchaser for his property but all he has is money or some property that is not acceptable.

The Multiple Exchange

There can be more than two parties to a tax-free exchange. So if the owner's broker can locate a suitable property on the market, he can set up a three-way tax-free exchange. Here is the way it might work:

Example: Able owns an apartment house; Baker owns an office building; Charles owns a vacant lot. Able wants Baker's building but Baker does not want to manage any rental property any longer, he wants the lot owned by Charles.

Charles and Baker cannot make a two-way exchange because Charles wants an apartment building.

The broker writes the offers this way:

1. Able trades his apartment property to Baker for Baker's office building. then,

2. Baker trades the apartment to Charles for Charles' lot.

The result: Able winds up with the office building; Baker gets the vacant lot; and Charles has the apartment building. The exchanges close at the same time. Each received what he wanted and the whole transaction can be tax-free.

When there are more than two owners and properties in an exchange, it is a multiple exchange. There may be three, four or more "legs" in a multiple exchange. The more active real estate brokers that specialize in this type of transaction and the larger number of owners with a property to exchange, the easier it is to put together the multiple exchange. ❑

Upgrade In Office Design

Key executives were the ones who always had the "office with a view." Now, however, on modern buildings built in the past ten years the atrium is now one of the most popular (and expensive) amenities. It is popular because virtually every office can have a window view, either toward the conventional view, the outdoors, or toward the spaciousness and openness provided by the atrium. It is an example of "keeping key employees happy".

Trends in the newer buildings being built and refurbished today are to make the tenants happy and content. Part of this is doing everything to make the tenant's employees content and happy also. Skilled employees are not tied to employers as they were in the past.

Amenities might account typically for only about one percent of the space and less than one percent of the building costs. But amenities can make a big difference when the management company is showing it to prospective tenants. With good amenities, the building attracts tenants and has less vacancy problems. Few tenants seem to be concerned with the addition of a few cents per square foot for the amenities that appeal to them.

The atrium will add extra costs for window cleaning, heat loss, and higher premiums for liability insurance. Where that amenity has been offered, managers have found that the tenants are willing to pay the few extra cents per square foot.

Additional Changes

Outside or inside fitness centers are increasingly popular additions at modern office buildings. Health and fitness are important to workers today. Employees of the tenant do not need much extra to feel that management is trying; after all it is a working environment. Close in parking is at the top of everyone's list. Additions to keep employees happy might add just ten cents per square foot to rentals. ❑

Real Estate Investment Consultants

When you need professional advice and help in commercial real estate you must come to our office. We are experts in values and knowledge of the entire market in this area. If you have been looking for a certain type of property we probably have the full information on several like it already.

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. As your professional commercial real estate advisors, we are in the position to represent you in real estate transactions by setting up sales, exchanges, leases, purchase and sales of options, and management of real estate

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.

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 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.

We can be your consultants. ❑