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Is Your Commercial Building Secure?

The problem of security is a major concern of owners or managers of office buildings or other commercial properties. There are many things to check both inside and outside of a property. Particular attention must be given to the perimeter of the property, as this is where an intruder will make the first contact.

For example, an office building should be inspected thoroughly all around the exterior to search for danger spots. No area should be overlooked because entry is possible from almost any point. The age, design, and location of a building will affect perimeter security. If the building was located in a suburban office park, using a functional but attractive fencing can make the grounds more secure. For a downtown high-rise, fencing would not be appropriate.

Older buildings can have more security problems because of the style in which they were built. Often there are street-level windows, exterior fire escapes, and operable windows. Each can increase the number of entry points that must be protected.

Specific Items To Check

Every building will be different, of course. Each will have to be checked, starting at a point and going around the property to return to that point. Here are some things that will always need to be checked carefully:

Fencing. If there is a fence around the building, is it just ornamental or will it actually protect the property? Are there any vulnerable spots? If there is no fence, is it feasible to install one?

Loading dock. How is the dock controlled during regular operating hours? After hours? What provisions have been made to ensure the loading dock's proper operation? What personnel are involved? Are there procedures to control deliveries and removal of materials? Is the dock left untended at any time?

Windows, fire escapes, and roofs. Do any of these areas pose potential access problems? If any do, should new grates or locking devices be installed? Check on your local codes.

Entrances and exits. (Pedestrian and vehicular). How many entrances and exits are there? Where are they located? What kinds of locks are used? Are the locks effective and who has the keys? What are the hours of operation of each entrance and exit? Is there any kind of alarm system to signal when a door is open? Who responds to these alarms? Would closed-circuit television (CCTV) cameras be of value in any of these locations? If CCTV is used, are the monitors always watched? If there is a parking lot or garage, are the access routes safe?

Guard service. If there is a guard service, what are the guards' assignments in regard to controlling daytime and after-hours traffic and patrolling the building's perimeter?

Exterior lighting. Is there adequate lighting that can serve as a deterrent to crime? Do time clocks or light sensors control the lights?

Landscaping. Are there possible hiding places along routes to and from the building? ❑

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In This Issue

Things To Check With A Ground Lease

Landowners may choose the ground lease as a way to benefit an easy and risk-free investment vehicle and as a way to secure the long-term appreciation of the property. Sometimes a ground lease can put the lessor at risk. That is because the deal centers on the concept of sharing economic returns. The lessor becomes a partner of the lessee because the total rent is usually determined by the lessee's net operating income or net cash flow. If the lessee does well, the lessor does too. However, if the lessee's business is a loser, so is the lessor.

Therefore, the lessor must consider the financial feasibility of the project. Independent analysis should show that the project represents the correct improvement of the site and that the projected payments will actually be received by the lessor.

There are at least four things that a prospective land lessor should remember before entering into a transaction:

• In most land lease transactions, the economic return to the lessor ultimately reflects the underlying performance of the real estate operated by the lessee.

• The lessor's evaluation of the deal must focus on the quantity of income projected pro forma but also must include a clear assessment of the likelihood of actual receipt of projected rent.

• Because the conditions and complexities of a land lease can mask the risk associated with achieving the projected rent levels, accurate assessments of the strengths and weaknesses of the real estate is essential.

• Land lease provisions must be tested against the current fee value of the land. ❑

The Use Of Other People's Money

Each investor has a "comfort zone" about loans. The leverage seeker wants the largest loan that is practical. Others may have experience or training that calls for no loans at all. They must have the property free and clear.

Most of us have a loan comfort zone somewhere between these extremes. Nearly everyone accepts the idea of some sort of mortgage. The use of OPM (other people's money) makes sense.

The comfort in loans may affect the type of investment. Many of these "free and clear" owners prefer land as the investment. They want no improvements on it, just the bare land.

Here's some of the benefits of investing in unimproved land. These can make a lot of sense:

1. There are no tenant problems. There may be a simple lease for farming or grazing, but only limited contacts between lessor and lessee. Often, the investment land lies unused.

2. A well-chosen land investment can result in huge profits. We have all heard stories of owners who have purchased land for just a few dollars an acre, then later sold for millions! (The key is "well-chosen.")

3. Land is a secure investment. Even in the worst economic situations, the land is still there. Value can fluctuate, but the investment will not disappear.

4. Land represents wealth. It can be a quick source of cash for an owner to use for another investment. Land looks good on a financial statement. It adds permanence and stability to an applicant for loans or for a line of credit. ❑

Is A High Risk Problem Property Right For You?

In any market, good or bad, there are always problem properties. Most are only troubled or problem properties because of the current ownership. Some may be neglected only because the present owner has failed to do fairly simple things that can solve the problems. Buying property and solving problems is a profit-making business.

Have you seen:

• An empty office building.

• A remodeled apartment house or hotel that has an excessively high level of vacancy.

• A large tract of undeveloped land that no developer has become serious about wanting to develop. ➠

(continued)

These are examples of troubled properties.

Properties that are a definite financial burden to continue to hold but which also are unattractive properties to some prospective buyers. Unattractive, that is, until very recently.

The timing now seems increasingly right for investors to obtain troubled property at bargain prices. The pressure on owners and lenders with troubled property to get out from under the on going burden is also high. The result is that syndicates have been formed to seek out and buy up troubled properties.

The High Risk

Knowledgeable property developers and managers (especially those familiar with empty or near-empty office, hotel, and apartment buildings) caution that buying a troubled property requires taking a very high risk. The financial returns are uncertain and may be a long time in coming. This type of investment is not for everyone; it's for those who can afford high risk situations.

The profits can come from any one or a combination of circumstances.

- A market turnaround caused by a boom in the local and/or national economy.
- An improved system for promoting and operating the property. Some syndicates are being formed solely to manage the troubled property with an option to buy when and if it hits a specified profit level.
- Purchase of the property at a bargain price, often combined with imaginative and untraditional financing techniques.

Some lenders are asked to share the financial risks by accepting a low initial interest rate in return for a big share of the profits later on. Sometimes the seller of the troubled property is asked to retain a financial stake in the property and to help turn it around. The seller's experience and involvement in the project from the start can be valuable.

- Including the troubled property in a larger development plan. An office building that sits empty might become part of a new industrial park with hotels, conference facilities, and residential apartments, all of which are successful.

Take another look at troubled properties in your area. With fresh new ideas and a re-structuring of the mortgages, the troubles may go away, leaving a profitable investment for you. ❑

Check Lessee Closely In A Sale/Leaseback

When an investor is looking for a management free investment, nothing can beat a sale/leaseback. This is the ideal investment for an absentee owner because the tenant pays all the operating expenses and the investor-owner usually has a completely management-free and trouble-free investment. Typically, the tenant–who is the former owner–will take care of the property. Therefore, a sale-leaseback can be an excellent investment. Watch out though! Make sure that the tenant is dependable and able to pay the rent regularly and promptly.

The Transaction

Let's say the Smith Corp. owns and operates a manufacturing plant. The corporation wants and needs to free up the capital invested in the plant for other corporate uses. So, Smith Corp. offers to sell the building and lease it back from the new owner.

Result: The buyer gets a fully leased property, with an experienced and known tenant already in place.

What You Need To Check

It sounds good, but here are some things to investigate:

Tenant stability. The rental income and the profitability depend on the success of the tenant. A stable, top-rated tenant with a history of past performance is the best kind of tenant to have in a sale/leaseback. Try to determine whether the tenant has any reason other than to free up capital for wanting to sell the building. Is the Smith Corp. getting ready to relocate to another part of the country? Is the product manufactured in this plant being removed from its product line? Is the company in financial trouble and is in need of the cash to try to survive?

Building Design. Be careful of single purpose buildings. If Smith Corp. must close its doors, will the building be usable by another tenant without a major overhaul?

Location. Is the building located in an area suitable for other tenants in the event it must be re-rented. ❑

Loans For Land Development

When an investor purchases land to build on, the next step is land development and financing. "Land development" cannot be precisely defined; generally, it refers to the physical, legal, and engineering processes needed to convert raw land to land (or lots) on which buildings can be placed.

Land development can be classified into the following six stages:

- **Annexation.** Taking the necessary steps to have land included within the boundaries of a municipality so that it can be eligible for municipal services.
- **Zoning.** Taking the necessary steps to obtain a zoning classification that permits the proposed use of the land.
- **Surveying.** Preparing an accurate and detailed survey of the land, showing not only the boundaries but also grades, drainage, topography, and other features of the land.
- **Land planning.** Drawing up a plan for the use of the land that is consistent with its physical characteristics, applicable zoning and land use regulations, and projected demand for types of land use.
- **Subdividing.** Platting (mapping) the land into blocks and lots in compliance with local laws and subdivision control ordinances.
- **Physical improvements.** Changing or improving the land by grading; landscaping; installation of streets, sidewalks, and sewer, water, electric, and other utility lines, drainage and retention basins, and similar physical improvements.

Loans for land development are usually obtained from the same institutional sources that provide land acquisition loans. One important source of financing for land loans, the seller that takes back a purchase money mortgage or sells on an installment basis, is unavailable for development loans because these require the provision of actual cash rather than merely the extension of credit on the sale of the land. Thus, if institutional financing for land development is not available, the developer must seek other noninstitutional sources. One possible source is a syndicate of private investors that puts up capital either in the form of equity or a participating mortgage. Another source is a loan from a real estate investment trust or pension fund, which sees land development financing as a way of providing above-average returns from real estate investments. ❏

Your Investment Real Estate Experts

Come to our office when you need professional advice and help in commercial real estate. 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.

Our information can help you 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.

You do not have the time necessary to gather all of the information to make intelligent decisions in today's complex real estate market. Today's investor in real estate must have a grasp of market conditions and potential that only a full-time professional can furnish. You 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.

Let us be your consultants. ❏

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