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Keeping Your Real Estate Investment On Track

When you make an investment in real estate, it is implied that you want to make money. The cash can come from direct income from the property or from capital gains from a sale after an increase in value. Either way, the investment must be managed, considered, and watched at all times. If the owner and manager are taking care of business, there may be ways to increase the income, and the value.

Schedule a meeting with the professionals that are part of your investment team. Your property manager, your real estate counselor and any other professionals that you regularly use in the acquisitions or improvement of any investment properties. Meeting with these professionals at least twice a year will keep your investments on track and help achieve your goals that you have set for your real estate portfolio.

Make Notes In Advance

Planning any professional meeting in advance will make it more productive. To keep any business meeting on track and save everyone time, notes should be made in advance by the property portfolio owner. The following are some examples of questions or subjects that might be discussed at each meeting; or some at least once a year:

1. In what ways can the management of my properties be improved? Can any current expenses be decreased?

2. How do our rent levels compare with the others in the immediate area?

3. Have there been collection problems–are all rents current at this time?

4. Is the current maintenance of the properties up to the best standards?

5. Has the planning department approved any zoning variances in the areas of my properties? Would it enhance the value of any property of mine to apply for a change in zoning?

6. Have any new construction projects been started nearby? What are they and what effect might they have on my properties or rents in the area?

7. Is the present use of my properties the highest and best use?

8. What improvements could be made that would increase the income?

9. Are we attracting the kind of tenants that should be in this type of property? Would anyone else be more desirable?

10. Are any properties of the type we own on the market at this time in this immediate area? What is the price and how is that price justified? Has there been any buyer interest in it at that price? Should we consider adding it to my portfolio of properties? If so, how can we acquire

(continued)

it, either by cash purchase or exchange?

11. Is my leverage position in all properties at its maximum potential? Would there be any benefit in a refinance of any of my properties at this time?

12. Are any properties in this portfolio suitable for a condo or co-op conversion? If so, should we do the conversion or sell the property to an expert in that field?

13. Can we offer any property for syndication? How would we handle it?

14. Which of my properties has the best set of benefits for me? Which has the least benefits?

15. Which of the properties in the portfolio would be the most desirable to dispose of at this time?

When each of the points in the meeting have been covered, both the property owner and his/her representatives should have a much better picture of the property portfolio and what should be accomplished. At this time, maybe each property owned should be graded in order of the most desirable to the least desirable to continue holding.

The goal should be set for the sale or exchange of the least productive property in the list of real estate owned. This result is very satisfying since the "weak" property is identified and the goal is set to use its equity to acquire a certain type of real estate that will fit better into this owner's portfolio.

This gives a result for the owner as to which property should be held, sold or exchanged for a more suitable property. There is a definite effort being made to keep the goals set by the owner and improve his/her position. ❏

Office Building Comparisons

Newer office buildings may fill up at the expense of older office buildings. Since new buildings cost more to build than the older ones, rents may be higher. The actual dollars-per-square-foot costs must be compared, along with other benefits that the tenant may receive, before a final decision is made by the tenant on staying or moving.

One of the most important jobs of a leasing agent for a building with available space is to analyze other buildings to see if any tenant could be induced to move.

Here are some of the items for comparison:

1. What is the time factor for employees at the old location? In a business' expansion at the old location, they may have expanded to different floors or to different buildings, as more space was needed. There may be a big loss in employee time due to the inconvenient layout.

2. Maybe the tenant is planning an expansion in the next few years, which will make it necessary to rent space in the old location at then-current rentals, raising the average rental per square foot for the tenant's entire space, in a less than adequate location.

3. Don't assume that the new space rentals are not competitive. Cost-of-living clauses in the tenant's existing lease may have escalated the rent level up to the costs in the newer, more modern building.

4. The newer building represents more efficient design, better and newer lighting, modern in every way. The intangible improvements in employee morale and efficiency might overcome any slight difference in dollar-costs per month.

5. Finally, a change in location to a more, prestigious building in a better part of the community can contribute to the reputation of the tenant–and ultimately to the profitability of the business. ❏

Your Commercial Real Estate Brokers

How can we be of service to you? When you are buying or selling a commercial property, of course. At other times, we can handle property management for any properties you might own. Let us help in determining the value of your investment, anytime you need to know.

Call this office when you need services of an expert in this community's real estate. We have the records of all properties for sale at all times. Today's interest rates, availability of loans, and any other financial information that can affect your property is as close as your phone.

Keep our newsletter as a file of useful real estate information and to remind you to call us whenever you need "Professional Service". ❏

Factors To Consider For Any Commercial Investment

When any particular commercial building is under consideration for purchase, there are a number of factors that should be considered. Here are some of the more important points:

- **Location** is always at the top of every list of considerations in real estate. Always check not only the building itself but also the entire neighborhood. How does this building compare with others in the area? How do rents compare? How close is adequate transportation?

- **Rentals and floor plans.** What is the layout of the building and the average rent per space? How competitive is the rent level and is there any chance for increases? The rent level may not always be equal to the rental value. A commercial building that is rented at a bargain price in a good community may have more rental value than high-rent premises in a declining area.

- **Condition of the property** can be the difference between profit and loss after purchase. Check the building and the grounds. What is the age and type of any equipment used? Is there any deferred maintenance? If you have checked the other nearby buildings, your building and grounds must compare favorably with the others to get the same rents.

- **Vacancies.** How many currently vacant units? Based on comparisons with neighboring buildings and past history of this building, when do you feel that the vacancies will be filled?

- **Amenities offered** to your tenants must be in line with the type of neighboring buildings. Does each unit have air conditioning, a kitchen area and up-to-date bathrooms?

- **The Income**. As stated, the value of the property is based on the income. While everything should be checked thoroughly, anything to do with the cash flow and expenses should be double-checked. Income can come from many sources, not only from the business units but also, garages, parking spaces, vending machines or other vendors. You must see if there are any pre-paid rentals, rents in arrears, and contractual rent increases. Find out if there are any free rent concessions and be aware that these concessions may not appear in the rental agreements or leases, but in some side agreement.

The following may be a way to protect you from any problems with the income and possible concessions or side agreements:

A. Have the seller state in writing the rent for each unit, the terms and amounts, any concessions or pre-paid rents, any written or unwritten arrangements between the tenants and the owner or his agent. A provision can be included that these representations will survive the transfer of title and any misrepresentation found before that time will be grounds for rescinding the contract, with the buyer to be entitled to costs and disbursement incurred.

B. Verify the information on the seller's statement against the leases and against seller's receipt books. Interview several tenants to check terms of their leases against seller's statement.

C. Have the seller sign an affidavit that the statement reflects the correct rental amounts and terms, that there are no other lease agreements in existence, and that he is making the statements to induce the buyer to purchase, knowing that the buyer is relying on the affidavit.

D. Also look into the possibility of options to cancel leases and commitments for future improvements to units.

E. Finally, check whether the amounts that the seller has reported as tenant's security deposits are correct. Check contracts with any outside vendors, food or sundries, for the terms and income.

- **The Expenses.** Examine the expense statements for past years, not just for a few months or one year. See if there could be any under maintenance, which might not be apparent in an inspection. Maintenance could have been deferred recently to improve the current net income to facilitate the sale of the property. Check the number of employees, their jobs and the total payroll, and any requirements of union contracts. Are there any rent concession agreements with employees? Can you reduce costs by better staff management?

The following items of expense should be carefully examined:

- **The loans on the property.** Check all of the terms of any existing mortgage that will be assumed. Determine if refinancing is desirable and feasible.

- **Real estate taxes.** Are assessments and tax rates correct? What will the recording of the sale do to change the assessment? Will the property tax change after the purchase?

- **Insurance.** Is property adequately covered? Can premiums be reduced in any way? Will more insurance be required if you increase the mortgage?

- **Utilities.** Check the bills for the costs of heating, gas, water, and electricity. Check bills on an annual basis, rather than a few months. Are there separate sewer and trash charges? If so, how are they computed?

- **Check all outside contracts.** There may be contracts for maintenance, separate contracts for elevator maintenance, cable TV, and exterminating.

All of these checks and investigations are part of the routine of the real estate professional. Some of the duties of the broker or brokers representing the buyer and seller in a real estate transaction are to satisfy the buyer that all of the information about the property is correct and complete. Normally, when employing the most professional real estate firms, this research will be completed by the brokers before the information is presented to the purchaser.

After the purchase, continue with the most professional actions by employing a professional real estate management company. ❏

Negotiating The Termination Of A Lease

One or both of the parties to a lease of commercial or office space may want to sever the relationship prior to the end of the lease term. A tenant may want to terminate the tenancy, for example, because his business has grown since he first moved in and he requires larger quarters. A landlord may want to terminate the tenancy because there is a better prospective tenant available.

Tenant Wants To Leave

While leases normally provide for the landlord's remedies in the event of early termination or abandonment, a tenant will try to reduce his potential liability. The landlord usually will want to avoid the delay entailed in seeking his remedies in court. Here, then, are some tips on what the landlord can do to protect his interests through an amicable arrangement with the tenant.

When a tenant requests cancellation of his office lease before its stated expiration date, he must be made to realize that he cannot take this step without incurring an expense. As soon as the building manager becomes aware of the situation, he should seek out a new tenant, first offering the space to other tenants in the building who may need more space than they now occupy.

When a new tenant has been lined up, the landlord should determine the cost of altering the space for the new tenant and the amount of time from the date when the old tenant vacates to the date when his successor will move in. The landlord and the outgoing tenant then sign an agreement for the tenant to pay a flat sum consideration for early termination, taking into account the cost of new alterations and any applicable re-renting commission. In other words, the outgoing tenant agrees to pay the rent, at the rate specified in his lease, for the period of vacancy, plus the cost to the landlord of securing a new tenant.

Owner Wants To Terminate

The owner of the building may seek an early termination of a tenant's lease because of the expansion requirements of another tenant in the same building or because of condemnation or for some other reason. Under such circumstances, the owner must expect to indemnify the tenant in some way. The following matters should be taken into consideration in arriving at a settlement with the tenant:

- The successor tenant's rent may be at a higher rate than the rate paid by the outgoing tenant.
- The outgoing tenant may incur extra expenses because of the early termination.
- The owner may realize a profit on the alterations. Besides the cost of the allocable proportion of alterations required for re-renting the space to the new tenant, the landlord must also take into account the unexpired value of the changes attributable to the original tenant.
- If the new tenant is already leasing space in the building and needs more for expansion, the new lease assures his prolonged tenancy. ❏

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