

Cravey

Real Estate Services, Inc.



A Full Service Commercial Real Estate Company

Check us out on: [Twitter](#) [Facebook](#) [Linkedin](#)

Cravey Real Estate Services, Inc.

5541 Bear Lane, Suite 240

Corpus Christi, TX 78405

361-289-5168 Office

361-289-5442 Fax

cravey@craveyrealstate.com

www.craveyrealstate.com

Commercial Real Estate Investment Newsletter

Marketing Your Apartment Property

When we are marketing your apartment property, we have a two-fold job facing us. First, we must persuade the prospective buyer to go out to see the property, then, second, get him to see it through your eyes, with its full potential fully realized. Creating the well-conceived descriptive sales “package” or report on the property can help to accomplish both of these aims.

Assembling all of the data that prospects need and presenting it in a handy and attractive form can expedite the entire process of negotiation as well as the ultimate sale. Besides speeding up the communications process, the “package” also provides the seller with a means of getting his information to a wider range of buyers in a more effective manner.

The Benefits of the Package

A well-prepared sales package serves essentially five marketing purposes:

- It helps the seller’s agent identify and reach prospective buyers or lessees.
- It provides an agent and his/her associates with an attractive and effective way of presenting the property.

- It gives the buyer, in one neat package, all the information needed to decide whether or not to buy.

- It provides dollars and cents demonstrations that will support the seller’s price.

- It spells out the property’s potential for development.

What We Include

The following information should be of interest to a prospective buyer and should be preassembled in a handy, attractive form.

Physical Features:

- Legal description of property.
- Plot plan showing survey boundaries and dimensions, access streets, sidewalks, buildings, structures, parking areas, easements, etc.
- Description of topography and surroundings.
- Topographic map, if available.
- Photographs of the property, including an aerial photo.
- Soil Analysis report, if

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

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When ideas in tax and other legal areas in this publication seem to fit your situation, it is recommended that you discuss them with your professional advisor before taking action.

(continued)

applicable.

- For an existing building, a statement of its physical condition, copies of floor plans, gross and net square footage.

Other Attributes:

- Statement of present ownership.
- List of any encumbrances.
- Statement of present zoning status.
- Proximity to highways, public transportation, residential areas, schools, houses of worship, shopping, sources of employment, etc.
- For an established enterprise, financial statements for the past three years, a three-year financial performance projection, and a computation of the venture's capitalized value.

Knowing The Possibilities

Whether we are marketing developed or undeveloped property, packaging is an effective way of increasing the property's value. In either case, the key ingredient is project formulation. Formulating and demonstrating the feasibility of a project plan that enhances an existing property's income-producing potential can

increase its value. Similarly, a higher price can be obtained for raw land if the property is conceived as being an integral part of a specific development project, rather than just a piece of land.

Following is some information that should be included in a sales package for a property requiring development, redevelopment, or remodeling:

- Schematic drawings and architectural designs.
- Estimates of the project's capital costs (including any off-site improvements).
- Projections of financial performance.
- Estimates of the project's capitalized value, as per its potential net income.
- Market studies for the present as well as projections for the future.
- A history of the property's market value.

In Conclusion

A careful preparation of a descriptive sales package like this will give us the opportunity to demonstrate the full economic worth of the property—its potential as well as present benefits and uses—to the prospective buyer. This will help justify the asking price and strengthen your negotiating position. □

How Will A New Hospital Affect Property Values?

What happens to nearby property values when a new hospital is built? Usually the surrounding area feels a ripple effect. Land values increase. Developers are quick to provide new space for offices and stores. The biggest profits are realized by the investors who get involved early (during the planning stages) before or while the hospital is built.

How It Happens

In one location in the Southeast, as a new hospital went up, the area around it began to pop its economic seams. Among the new activities that created an abnormal demand on land located near the hospital were:

- Physicians offices.
- Walk-in clinics.
- Medical supply companies
- Banks and investment advisors.

- Residential apartments for hospital employees.
- Fast food outlets.
- Auto repair shops and gas stations.

A few decades ago when doctors regularly made house calls, hospitals were isolated structures and viewed as "places to rest". Now, however, doctors prefer to locate their offices near the hospital. The whole area begins to boom with ancillary services that are both directly and indirectly related to health.

There is often a need to expand the medical facilities at existing hospitals to handle a growing population and larger numbers of senior citizens. Land prices can soar when the hospital decides to buy nearby land for expansion. Watch for it, the alert investor can again have an opportunity for profits. □

Preparing A Complete Loan Package

There has been a sense of caution among lenders during the period of lowered economic activities. Bankers may be more difficult to convince today, even with the loan request on the best properties. When preparing the loan package for presentation to the lender, the real estate borrower must be as complete as possible the first time. Insufficient, imprecise, or incorrect data in a loan request package can mean a rejection for an otherwise attractive real estate loan.

Following are suggestions on things to include with the loan request package:

The Loan Request

There should be a detailed statement of the purpose of loan and the sources and uses of funds for the project. The property should be described in detail (whether it is a proposed development or an existing building), with a map showing the site and its relation to major roads, shopping access, recreation and other advantages.

Cash Flow Statement

The first thing the lender will think of is the cash flow on the property. Lenders have to be assured that the borrower will have sufficient cash flow (from the property or otherwise) to service the loan. The loan package should include a detailed cash flow statement covering the subject property and any others owned by the borrower. For each, the loan application should show percentage of ownership, date of purchase, original cost, present market value, present mortgage balance, and net (equity) value. It should also show the net cash flow before and after the debt service. Should any property show an unusually large difference between gross and net income, make sure there is a complete explanation.

The cash flow statement is a picture of the borrower's portfolio and ability to manage property and money. The borrower should emphasize acquisition and management strategies and successes with particular properties.

Details Of Expenses

When preparing expense analyses, the most complete information will avoid the need for the lender to come back with more requests

for information, and delaying the loan approval process. Expenses for the property on which financing is sought should be broken down to show taxes, insurance costs, utilities and services, management fees, property security expenses, and general and administrative expenses. Provision should be made for structural reserves for such items as roofs and parking lots.

Also included with the expense analyses should be an expense reimbursement schedule, showing expenses that can be passed through to tenants on a pro rata basis. These might include utilities, taxes, insurance and others.

Financial Statements

When the borrower is an individual or a partnership, the lender will usually want personal financial statements. These should be current and less than 90 days old for the borrower and any guarantor and be accompanied by bank and credit references.

The corporate borrower will need to provide legal details about its organization, names and addresses of its officers, and a certificate of good standing showing that it has paid all taxes in its state of incorporation.

The Appraisal

Usually the lender will want an appraisal made within one year by a qualified appraisal firm (one accredited by the American Institute of Real Estate Appraisers). The appraisal should be detailed, with notes and comments, comparable sales facts and figures, and assessed valuations.

The appraisal should be accompanied with photographs showing the property from its most attractive and impressive angles. Each photo should identify the view and the particular features shown.

Positive Features Of The Property

There should be a summary portion of the loan package that highlights the condition of the property and the reasons why it should be profitable in the future. Current vacancy rates, list of major tenants, traffic counts, availability of public transport, amenities and any other positive features should be included.

Any information about prospective improvements in the area, whether public or private, that will enhance the property's value should be included. □

The Assemblage Option

The option is an extremely versatile investment tool that comes in a variety of forms and can be used for a variety of purposes. The best part of an option is that it gives the optionee (the party holding the option) control over property (in the sense of the right to acquire it) for a very small cash outlay. In effect, it achieves a very high degree of leverage and conserves cash, two goals sought by both real estate investors and real estate speculators.

An option gives to its holder the privilege to buy a specific parcel of real estate, at a specified price, on specified terms within a fixed period. An option to buy also is known as a "call." (An option to sell, known as a "put," also may be used in real estate, although it is more common in securities transactions.) The person who grants the option (the optionor) agrees to refrain from selling the property to any other party during the option period in exchange for consideration, which the optionor will keep whether or not the option is exercised by the optionee.

Combine An Assemblage

An assemblage is when someone, usually a developer, combines an assemblage of separate parcels of land into a single parcel. The developer putting together the assemblage normally is interested acquiring all or none of the parcels. Consequently, in order to avoid committing large amounts of capital to a project that may not succeed, the developer will proceed with options rather than purchase contracts. Of course, each contract could be conditioned upon acquisition of the remaining parcels, but this would reveal the assemblage plan and cause an immediate rise in prices of the parcels not yet acquired.

The Most Favored Purchaser Clause

A landowner that suspects that an assemblage is in process may insist on a *most favored purchaser clause* before giving the option. This requires a developer to increase the exercise price of the option so that it is equal (on some comparable basis) to the highest price paid for any other parcel. Because the developer may be confronted by one or more hold-outs and be forced to sharply increase the exercise price for them, this type of clause can substantially increase the gain to earlier optionors. □

Your Real Estate Investment

Knowing what you can do in some investment situations can be the difference between an annual profit or loss in your currently owned commercial property or the one you intend to acquire. How you acquire it can be important.

The professional commercial real estate broker is in the position to represent a client in real estate transactions by setting up sales, exchanges, leases, purchase and sales of options, and management of real estate. This real estate practitioner stays aware of current tax laws and court decisions in order to structure transactions, but does not give legal or tax advice (unless he/she is also an attorney or a certified public accountant). In any complex

transaction that might result in changes in any owner's legal or tax situation, the other members of the "consulting team" should be the owner's attorney and/or tax advisor. We always recommend consulting with these professionals during the planning and closing of major real estate transactions. All can affect taxes and estate planning.

We are the heart of your professional team, creating the real estate transactions that will be needed to expand your estate. Let's get together to evaluate your present portfolio of properties, or review your plans for future acquisition.

Starting with your present position and your goals for the future, we can set out moving directly toward achieving those goals. □

As commercial brokers, we are part of your professional team. It is our job to create the real estate transactions that will be needed to enhance your estate.