

# Cravey

Real Estate Services, Inc.



A Full Service Commercial Real Estate Company

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## Commercial Real Estate Investment Newsletter

### Changes To Increase Income

We are certainly all looking for ways to increase income in the present market conditions. Sometimes the possibilities for changes are right before us. If you now own a commercial property or an apartment complex, you might try looking at the property with “new eyes” to see if you can spot any changes that could make you some extra rental income.

Of course, if any structural changes need to be made, or changes that would be affected by zoning regulations, etc., proper permits need to be secured, and contacts with the government agencies that would be involved should be made in advance.

Sometimes, owners of rental properties fail to see some obvious money making opportunities in their own buildings. Anytime additional rents can be added without any basic changes or with fairly inexpensive changes, it is almost like finding the money. When a building comes up in the sale market, potential buyers and real estate brokers

often look for these “Revenue Enhancement Changes” that can be made, and were overlooked by the seller. These might be the things that make the sale possible.

#### Changes

- In an apartment building, there often are storage rooms that are rented out at nominal amounts to tenants. Can these be converted to a better income unit than the original use? Can this space be changed to office space for a doctor, accountant, or other small business? You might be able to upgrade this type of space from \$25 a month to \$250.
- A parking area or garage might be reviewed. There may be odd shaped spaces and corners that are not suitable for parking. Sometimes the entire space can be redesigned, freeing up space that could be used for additional parking, or for lease for another use. The only expense might be in painting



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

#### In This Issue

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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)

or “restripping” the garage floor. The additional area could be leased to an auto products dealer, car wash services or an auto detailer. In the right kind of building, the space might be desirable for a newsstand or other specialty retailer.

- In office buildings or other commercial buildings, there might be storage rooms, sub-basements, odd shaped areas under a stairway, etc., that can be cleaned out and turned into rentable space. If storage space is absolutely needed to operate the building, can it be moved to a self-service storage facility off of the premises? The rental space off site may be much less expensive to rent than the potential income from the freed-up space. Some of the space in basements or in building interiors might be windowless, but this could appeal to a tenant needing special security (jeweler, coin dealer, stamp or antique dealer).
- In one property, a floor with very high ceilings (about 20 feet) was turned into two floors by adding a new floor in-between. This made both floors have ceilings with normal heights. One whole floor of rental space was added

without a large expenditure.

- In a commercial property with a restaurant on the ground floor, an inside refuse storage area used for all of the tenants was changed by moving these garbage collection facilities outside the building. Then that inside garbage area was converted to expand the restaurant and for storage for the restaurant’s food inventory. That space was earning no rent at all before, but then began generating \$2,000 a month income for the owner.
- Look at basement space in office buildings. There are often spaces being used by maintenance staff that can be consolidated with hallways and converted to conference rooms or small offices.
- The areas of a building that are used for centralized mechanical systems for the building might be consolidated to add a small rentable space.

Tour your own property with the goal of finding those additional areas that can add new rental income without expensive additions to the property. Those spaces are there in many buildings. It just takes observation to bring them out and utilize them. □

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## Types Of Commercial Condos

When the word condominium is mentioned, do you always think of residential properties? Of course, most condominiums are ones that people live in. But, let’s consider the other condominiums. There are all kinds. Any type of rental real estate can be converted to a condo.

There are a growing number of commercial condos, many of them professional offices. The benefits are the same as owning a free standing building used as an office. A leading benefit is the security of having an owned unit free from any problem of having to move at the end of a lease period. Like owning any commercial property, interest on loans, taxes and expenses can be deductible.

There are all kinds of condominiums. We have heard of aircraft hangers, boat marinas, high-rise parking buildings, even medical office buildings.

For example, the typical new medical condominium complex could be like this. It would have 20 to 50 professional spaces (each with street-level entrances) ranging in size from 800 to 1600 square feet. The developer

offers the spaces to health care providers, among them physicians specializing in internal medicine, cardiology, dermatology, pediatrics, plastic and reconstructive surgery, and psychiatry. Dentists, podiatrists, and ophthalmologists can also be among the owner-tenants. Some spaces are reserved for laboratories, pharmacies, bookkeepers and other medical-industry service firms.

### Protective Aspects

Each owner of a professional space is permitted to share that space with partners. However, each space owner is bound by a “practice protection” clause that will prevent selling or leasing to a physician or service in a different specialty from his own without giving the condominium association the right of first refusal. This clause allows the complex operators to maintain a controlled mix of tenant owners.

A key attraction is that the physicians own their space, and thereby are protected from the rapidly rising rents in nearby vertical commercial buildings.

From the patients’ viewpoint, the availability of full medical services with shared resources is considered especially attractive. □

## Aggressive Maintenance Prevents Problems

Preventative maintenance is one of the most important components of successful property management. An aggressive preventative maintenance program should be developed for both large and small properties, regardless of whether building staff consists of only a part-time maintenance worker or a larger number of employees supported by a computerized maintenance program. Aggressive maintenance means trying to foresee any problem.

Maintenance of any apartment building should be handled as much as possible on a routine basis rather than on an emergency one. Preventative maintenance must be performed on a regular basis to keep the level of service at the property high and to reduce equipment breakdowns and service interruptions. Toward this end, the maintenance staff and on-site manager should make regular inspections for the repair and replacement of items before problems occur. Preventative maintenance reduces the number of emergencies by anticipating wear and tear that the property, buildings and equipment will undergo.

Careful preventative maintenance eliminates corrective and emergency repairs later. While many owners and managers consider preventative maintenance a poor use of cash, and some claim to have no time for it, the truth is that preventative maintenance, by identifying problems in early stages, saves both time and money.

**The following four steps are required to develop a good preventative maintenance program:**

- 1. Prepare an inventory of all items that require servicing during the year.**
- 2. Determine the type of service, frequency, and cost efficiency of performing the work required by each item.**
- 3. Schedule the work throughout the year.**
- 4. Control and revise the preventative maintenance program as needed.**

The building, major equipment, and grounds should be inspected regularly by the maintenance supervisor to note both the unusual and normal wear and tear. This inspection is, by and large, a quick visual one, and the details of the inspection do not need to be entered on any form. For work that needs to be performed, a work order should be prepared.

Detailed inspection reports can be used as a reference for the daily inspections, and these forms should be completed on a regular basis in accordance with the maintenance plan. In general, these inspection reports should be completed at a minimum of once each month. The property manager should inspect the interior and exterior of the property.

Evidence of building settlement, structural damage, leaks, and corrosion should be noted during building inspections. In addition to regular daytime inspections, there should also be occasional night inspections to test and examine lighting and other security features; these inspections should include an evaluation of the property's appearance to visitors and prospective tenants.

### Emergency Maintenance

Emergency maintenance is a form of corrective maintenance. Immediate action must be initiated to correct emergency situations that threaten the life and health of tenants, as well as the integrity of the property. Situations requiring emergency maintenance can be created by fires, floods, and burglaries, or the malfunctioning of major equipment (e.g., broken elevators, gas or water main leaks).

Preparations for such an emergency should begin upon occupancy. Tenants and building personnel should be versed in emergency procedures such as evacuation, and should receive a list of telephone numbers for the local police, fire department, and utility repair persons, as well as the building's 24-hour emergency number. Emergency maintenance is the most costly of all maintenance types because of dangerous conditions and the swift response they require. □

## What An Asset Manager Does

Owners of large portfolios of investment properties will usually call on asset managers when they need to make strategic business decisions involving management of these properties. Areas of concern are overall leasing strategy involving rental rates and tenant concessions, in addition to repositioning or redevelopment, tenant mix, managing bulk service contracts.

There will be owner oversight to the manager's actions, but the asset manager usually controls such matters as contracts, leases, and capital improvements for portfolio properties and is directly involved in implementing strategies involving financing and tax or litigation-related issues. The asset manager will also be responsible for maintaining communication with lenders and equity partners with respect to financial reporting, debt negotiations, and significant operational issues.

The asset manager also can be expected to provide basic administrative services, including information systems support, in-house legal counsel, financial accounting, coordination of required appraisal, and preparation of annual operating budgets. The manager also may plan and coordinate exit strategies—sale and disposition of real

estate. Finally, the manager will be responsible for overseeing property management personnel.

### The Property Manager

Property management responsibilities differ from those of the asset manager. The property manager has a more tactical focus, dealing with the day-to-day operation of individual properties. These responsibilities include: overseeing repairs and maintenance, security, and cleaning operations.

Finance-related responsibilities of the property manager include tenant billings and collections at individual properties; lease negotiations; vendor contracts; cost control for property operations; and maintaining appropriate insurance coverage. They also handle tenant relations and deal with on-site issues such as space and leasing requirements. Finally, the property manager maintains accounting records and performs necessary inspections.

Property managers also may be called on to handle legal matters relating to building and tenant interests and to ensure compliance with local laws and ordinances. Finally, the property manager is the conduit by which information about each property and its operations passes to the asset manager. □

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## Help With Investment Real Estate

When you have searched for new real estate investment opportunities, with values that have been changing, you know that finding and evaluating them is becoming more sophisticated and complex. 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.

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.

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 looking for 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.

Our office is open and ready to assist you. We have been experts in property values in this area for a long while. We can help you with enough information 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.

Let us guide you in your investments. □

**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.**