

# Cravey

Real Estate Services, Inc.



A Full Service Commercial Real Estate Company

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## Commercial Real Estate Investment Newsletter

### Changes In Office Space

The traditional standard for measuring the demand for office space has always been based on a multiple of the area required to house a single office worker. Generally, that figure averaged around 250 square feet for many years. Thus, if office employment were expected to increase by 10,000 persons in a given year, 2.5 million square feet of space would be absorbed.

This type of arithmetic, accompanied by optimistic employment projections, helped fuel the growth in office space during the past decade. While the square foot standard remains in use, the figure of 250 square feet has been virtually cut in half by many companies, with some reportedly having reached a low of 100 square feet per employee. This has meant a major savings in rent costs for tenants and a new challenge for landlords to fill available space.

#### Not for Everyone

Both office tenants and landlords should realize at the outset that the alternative office is not suitable for most office employees. Primary can-

didates for the new technologies are companies with large sales staffs who spend much time in the field, or professional service firms that provide many on-site services (e.g., accountants, auditors, and consultants). Thus, office landlords able to tailor space for smaller, entrepreneurial firms may be able to reduce the risk that at renewal time less, rather than more, space will be sought. (On the other hand, such tenants are more costly to obtain, because more of them are needed to fill a building, and are more likely to fail or move elsewhere as their space demands grow.)

In addition, many office workers may feel uncomfortable in the alternative office environment. In most companies, the "workplace" implies face-to-face contacts and observation. In a "virtual office," employees must focus more on working alone without the interaction with co-workers. Employers also must become used to the idea that they cannot keep track of how hard and how long employees are working.



### December 2014

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

#### In This Issue

- Changes In Office Space
- Office And Industrial Parks In An Improving Market
- Watch Rent Collections In Apartments
- Help With Investment Real Estate

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)

## New Concepts

A factor that will have an increasingly important impact on office demand is the spread of new concepts on how people work. New techniques have created a whole vocabulary of terms. Some of the most widely used are:

- **Hoteling.** An arrangement whereby employees call in ahead of time to reserve workstations for a requested period of time. When the employee arrives, he or she is assigned to a temporary office equipped with all of the necessary equipment.
- **Virtual Officing.** A work structure that allows employees to conduct business from virtually any location. Field personnel are equipped with laptop computers, a modem, a portable fax machine, and cellular phone. They communicate with the central office through a modem line and are linked with headquarters via voice mail.
- **Home Officing.** An arrangement that allows employees to conduct business from their homes. Equipped with a computer, fax, and phone, these employees communicate with the central office through a modem line.
- **Telecommuting.** Employees who work most, if not all, of the time in their homes using a computer linked to their employers' locations over a telephone network. This arrangement allows the flexibility of working at one or several locations.
- **Video Conferencing.** A technique that transmits voice data and visual images from one point to another. Participants can interact with each other over television monitors or screens, or through computer terminals. This is good news for landlords because it keeps tenants in buildings, but bad news for the travel industry.

## Maintenance Of Your Rental Property

Owners and managers must constantly make changes to keep their properties upgraded and so compete and appeal to tenants and the tenant's visitors. By working on this every month, they avoid the huge expense of a total refurbishing at one time.

Tenants are increasing their budgets by larger amounts to make the work environment more comfortable for employees. The more pleasant working area helps boost morale and productivity. The average spent per worker has increased from about \$500 to about \$1,000. Some companies are spending several times that amount to make the office pleasant and efficient.

Here are some of the changes that are happening in offices today:

- Carpeting is needed in many offices. Offices today now have noisier high-speed equipment and the sounds must be muffled. When the new carpeting is added, it becomes more decorative and may lead to the employment of an interior consultant.
- Lighting is going through a transition. With utilities increasing rates, economy and saving energy is most important. "Warmer" fluorescent lights are replacing the harsh lighting of the older styles of lighting. These give truer colors, and with the natural light from today's larger windows gives a much more soothing, pleasant (and less expensive) look to the office.
- Painted or paneled walls are being replaced with wall fabrics. These neutral, subdued colors, when combined with carpeting and better lighting create a new upscale image for the firm.
- Office furniture is changing in comfort and utility. Chairs are designed to conform to body shapes and can be easily adjusted. Desks are larger, often with a U shape with space for computers, printers and other necessities.

With many tenants making these changes, owners of the buildings must upgrade the common areas in the lobbies, hallways, elevators, etc. When tenants and visitors enter the building, they will find a smooth transition from the public areas to the improved office decor.

## Solutions

The landlords might consider new methods of attracting tenants. Part of a building might be designated as the satellite telework center. It could offer facilities for telecommuters and would offer advantages not available to work-at-home workers, such as child-care, and state-of-the-art equipment. □

# Office And Industrial Parks In An Improving Market

There has been a move on the part of industry to relocate from the cities to the suburbs during the past few decades. The prime reasons were cheaper land costs and a greater amount of labor sources.

The result of this has been the establishment of industrial and office parks in those suburbs. Many of these have been planned and developed by private investors; others have been planned or sponsored by public agencies. Preparation for construction of an office or industrial park is expensive. It includes plotting, grading, and installing streets, utilities, rail connections and other facilities. With the increasing difficulties in the economy, in securing clearances and permits, speculative development in building these facilities is down.

## Less Demands for Space

With the turndown in the economy, the need for space in office and industrial parks has slowed. Now during the recession, there is less demand for space in office and industrial parks all throughout the country. Rental space is in supply.

A few years ago there was an interest in these parks everywhere. The demand is now reduced and vacancy rates are up.

Now with the economy slowly improving, there is a beginning of interest in some build-to-suit projects.

## Benefits Of The Build-to-Suit Facility

Some tenants require a certain type of building, so there is always some build-to-suit construction continuing. If the developer has a new tenant requiring a certain specifications in a building, his exact needs can be planned in advance and worked into the original construction plans. In this case the cash flow starts immediately as soon as the project is completed. There are no high risks of speculative development for the developer in such a project.

In good economy or bad, the tenant in any build-to-suit facility does not have to compromise on size or types of buildings.

## The Speculative Flex Building

When the economy improves the developers

will again build industrial parks on speculation. To appeal to the most tenants, builders usually choose low-rise flex buildings.

The flex building is a speculative, low rise, single or multi-tenant building that is designed to accommodate different amounts of office and work areas, depending on the lessee's needs. The developer finishes the outside of the building and the grounds, but leaves the interior only partially completed until the tenant takes the space. At that time, the interior is customized to provide space for light manufacturing, warehouse and distribution, research and development, sales and accounting or inventory control office space.

The flex building is usually one-story. It usually contains standard attributes that help control construction costs, such as:

- Ceilings of 16 to 22 feet. This should suit nearly any manufacturing, distribution and office operation.
- A state-of-the-art HVAC system that will provide zoned temperature control capability, advanced security measures, and "clean" atmospheres throughout.
- Loading docks that are flexible enough to adapt to any tenant's specific needs. Adequate parking space. Well-planned driveways with access for all sizes of trucks.

## Benefits For The Developer

Because the building is attractive to a variety of tenants, the developer finds:

- Lower financing costs because lenders look more favorably on flex buildings than on standard speculative industrial buildings.
- Faster lease-up because a much larger pool of potential tenants exists from which to draw.
- Lower construction costs because the staged construction eliminates costly and time-consuming rip-outs of already installed interior spaces that do not meet a tenant's needs. Further a tenant's expansion needs are more easily met (and at lower cost) due to the building's flexible design features.

In many cases, much of the space in flex buildings may be used for office use. With that use, the building becomes a lower cost all-office alternative to the typical low-rise office building. □

## Watch Rent Collections In Apartments

A good management system efficiently records, reports, and manages income from tenants. A poor system, on the other hand, is likely to increase the amount of work, create tenant conflicts, and reduce the amount of total collections.

The income from managed apartments is determined by the actual collection of rents, not by the number of occupied units. A fundamental aspect of effective property management is the rent management system, which enables rents and other income to be billed, recorded, collected and deposited.

In cases where the rent management system is controlled from an on-site office, the on-site manager may be responsible for the system under the supervision of the property manager. In companies with no on-site office or staff, rents and other monies are mailed to manager's central office or to the bank. Regardless of the location of the collection records or the delegation of duties, a good rent management system is essential.

A consistent rent collection system is crucial to good property management operations. Operating expenses are funded by rental income, so any delay or decreases in this income affects all other aspects of the management process. Developing and maintaining effective rent collection policies requires a good tenant screening program, orga-

nized and accurate record keeping, and adherence to collection policies and procedures.

Each day, rent receipts should be recorded in the tenant ledgers and the rent roll and totaled to ensure that the proper amounts have been posted. Charges and receipts for income other than rent should be coded for identification on the rent roll and tenant ledgers. Policy statements should be established for the following:

- Rental due date.
- Date rent is considered delinquent.
- Schedule of late penalties/charges conforming to state and local laws.
- Form of payment (check, cash, and so forth), and place to submit payment (on-site or central office, lockbox).
- Type, content, number and schedule of delinquent notices (first notice, demand notice, writ of eviction), conforming to all pertinent laws.
- Handling partial payments.
- Eviction procedures.

Tenants should be advised of rent collection policies when initially applying for tenancy again at occupancy. An unenforced collection policy demonstrates poor management of the owner's investment. □

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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.**