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Real Estate Services, Inc.



A Full Service Commercial Real Estate Company

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Commercial Real Estate Investment Newsletter

Kinds Of Apartment Properties

Here are a few tips on types of apartments and ways to invest in them. There are totally different types of tenants in these different kinds of units. Looking at an apartment property for investment, choose the type of property you want to own, and think about where your tenants will come from.

The Market

Center City Luxury High Rise. The advantages of the downtown apartment are its accessibility (both for work and shopping) to the business heart of the city, and the cultural and entertainment facilities available. However, because of high rentals, it is not surprising that studies show that the luxury-apartment dwellers (1) were over 35; (2) had relatively high incomes; (3) either worked downtown or did not work; (4) had no children living with them.

Luxury Medium-Rise. Cost considerations often prevent these in the downtown area, but they may be feasible in fringe areas. They are attractive because they have a friendlier atmosphere than the high-rise. A typical tenant profile for such a project showed that most had moved

there from single family homes, were over 45 without young children, and were self-employed or professionals.

Suburban Garden Apartment.

These generally fall into the middle-income or semi-luxury class. In one Southern city, a study showed about half the tenants in a project were single and sharing space, while the other half were married couples with few or no children and both working. Average age was low and most commuted to work without finding the trip burdensome.

Luxury Garden Apartments.

These appeal mostly to older persons who want to live in the suburbs without having the responsibility of a house. The apartments tend to be large, both in terms of space and number of rooms.

Suburban Luxury High-Rise.

These are often popular in high-income suburbs near fairly large cities. They combine the full range of luxury features (swimming pools, organized social activities, etc.) with the advantages of suburbia (less congestion, adequate

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

In This Issue

- Kinds Of Apartment Properties
- Who Buys Commercial Property
- Inspecting Investment Property
- Converting Railroad Stations
- Closing The Lease
- Your Real Estate Investment

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.

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parking, modern shopping facilities). Usually, these projects are located at or near key access routes.

Studies have also shown that the reason most often given for selecting a particular apartment project is its accessibility to the job. Most emphasis is on travel time rather than distance. Uncrowded roads or fast expressways open up a wider territory for rental projects. After-work accessibility, the feature people want most is convenient shopping, which in the suburbs means access to a shopping center. Thus land adjacent to a center is often highly desirable for a rental project if it can be acquired at the right price.

Location. If the apartment fits these criteria for tenants, check the location and surrounding neighborhood. You don't know what you're buying unless you take a hard look at the neighborhood in which the apartment is located. How does the building compare with other buildings in the area? What are others offering to tenants in the same neighborhood? How do rentals compare? What about transportation facilities? How close to the business area are you? Make a careful study of schools, recreation and shopping facilities, traffic flow, and churches. An analysis of these factors is essential.

Layout. Study the number and layout of the apartments, average rent per room, and prospects for increases. How competitive is the rental level? Don't automatically assume that the rental level is equal to the rental value. Remember that an apartment rented at a bargain price in a financially well-off community has more rental value than high-rent premises in a declining area. Also, a low-rent apartment in a fashionable neighborhood will bring more than a much better apartment in a middle-income area.

Condition. Before investing, the physical condition of the property must be checked. Whether or not the building and the grounds are in good condition may make the difference between profit and losses for you. Look carefully at the age and type of equipment used. Check for signs of deferred or substandard maintenance. Otherwise, you may find that you will be faced with abnormal costs after you acquire the property. If you expect to get the same rentals as other buildings in the neighborhood, the appearance of your buildings and grounds should compare favorably with the others.

However, a property that is in poor physical condition may be just what you want if you are renovating apartment buildings. □

Who Buys Commercial Property

When we represent a seller of a commercial property, we try to determine, as soon as possible in the marketing process, what type of buyer is most likely to be interested in this particular property. We then focus the main appeal on those elements that are most important to that type of buyer.

Types of Usual Buyers

Normally there are three types of buyers for commercial property:

- Investors, who seek an income-producing investment in which to place their surplus funds.
- Speculators, who buy so they can sell when the market goes up.
- Users, who seek sites for their businesses.

The seller's agent will appeal to the special interests of each of the three types of buyers. Advertising and marketing materials should develop each appeal and furnish supporting facts, realistic projections, and professional information.

The Appeals

For the primarily income-seeking buyers, we focus

on the financial data, concentrating on rentals from the property, terms of the leases, maintenance charges, mortgage information, and net income. We will also demonstrate the probability of income growth from the property.

For the speculator-buyer, the stress is on the potential for a resale profit. We might show that the property is in the line of future development (new public transportation is planned or being built, or there are other newly built or renovated commercial properties as neighbors). Demonstrate that the property is in a growing, vital locale.

Since income is of only a secondary interest to the speculator-buyer, we'll go no further than the current income status. The focus will be on the potential for profitable resale.

The location will be of greatest interest to the user-buyer. Is it right for the user's business? Is the building in good physical condition, or must it first be remodeled, improved, or up-dated? We must demonstrate the wealth and habits of the surrounding population.

With each type of potential buyer, the marketing effort will focus where it is most likely to produce a prompt, successful sale. □

Inspecting Investment Property

When a buyer makes an offer on an investment property, it is usually only after a thorough inspection of all of the data that is available on the financial records of the building. Certainly, a good physical inspection is also made.

Some investors pay more attention to the data than the structure. The physical inspection of the property could be as important or more important than the rents and expenses. By thoroughly inspecting potential investment property, a buyer may be able to:

- Work out a better price.
- Get ready for any upgrading or maintenance expenses.
- Avoid catastrophic repair bills for detectable problems.
- When actually purchased, get a higher return on the investment.

Where to Start

First, the investor needs to know what experts to call. He needs to know what needs to be inspected and how to do it. The property must be verified as physically sound and is a worthwhile investment.

There are some broad categories of problems that investment properties are subject to, and the type of expert that is needed for the inspection.

- **Soil Conditions.** When a property is located on certain types of land, a professional soil engineer or geologist should be called. Property could

be low lying or reclaimed land; a former landfill or dump area; on hilly or mountainous terrain; located at lakeside or seaside; has structures or piers, pilings, stilts, or other unusual foundation conditions.

- **Drainage.** If the property is located within a flood plain area, it should be carefully examined by a civil engineer. The buyer can check basements and interior walls for signs of water damage.
- **HVAC.** Contact representatives of the companies that manufactured or installed the heating, ventilating, and air-conditioning systems. Elevators and electric systems should be inspected by professionals in those fields.
- **Roofing.** A roofing consultant or structural engineer should be called to determine age, condition, ability to withstand loads, etc.
- **Pests.** Pest control companies are able to check for termites and other damage-causing pests.

Government Records

Check the local building department and see what permits were issued and when. Some records may also show when fire inspections or health and safety inspections were made. Any violations will be on record.

The plans and specifications of the building may also be on file. These may contain the names of the original architect, engineer, contractor and developer. The investor may wish to contact one or more of these if any questions need an answer. □

Converting Railroad Stations

In many areas of the country, railroad stations are now covered with dust and rust. The large terminals which were once the busiest and most accessible buildings in a city are deserted and deteriorating. Stations along commuter lines in smaller towns are boarded up.

Things have been changing along the old rights-of-way. Former railroad depots have been fixed up and now serve as retail furniture stores, as antique or gift shops, as restaurants, as day spas. When the building has burned down or has been demolished, the area has often been converted into commuter parking space.

Among the larger vacant train stations, the plan is to facelift the historic structure and redevelop the

space into hotels, offices, stores and parking garages. For example, the St. Louis Union Station has undergone a \$135 million renovation and now includes entertainment areas for cultural activities, specialty retail shops, restaurants, and a 550-room luxury hotel.

In the state of New Jersey alone, more than 140 train stations have been involved in a re-awakening of redevelopment interest. Mass transit experts, community leaders, and real estate investors have been planning on how to use an old railroad station to liven up a whole section of town. The belief is that a once grand station can become an attractive place to eat, work and shop. Developing the railroad station can encourage other new real estate ventures in the nearby area. □

Closing The Lease

When all of the negotiations have been completed, broker and the commercial tenant have agreed to the terms of the lease. Now all that is left is the lease closing. Often there are so many back-up papers than must be produced, examined and approved, the closing can be held up because of a forgotten document.

Following is a checklist that provides basic information on typical documents that may be required at a closing. It is a starter list, and may be expanded so that it is complete for your particular property.

- Lease. Be certain that there are enough copies of the lease, fully prepared and ready to be signed.
- Signatures. Be sure that you have all necessary signatories present.
- Bill of Sale. If personal property is being sold when the property is leased, your lessee will want a bill of sale for items conveyed.
- Property Data. Bring appropriate maps, surveys, and diagrams to the closing, as they may contain information that will be useful to the tenant.
- Additional Data. Be prepared in case any

questions might arise at the closing, so bring copies of: title abstracts, certificates and guarantees, certificates of occupancy and inspection, and mortgage data.

- A Notary if required.
- Costs. You should have any tax receipts, assessments as well as bills for water, fuel, utilities and any other expenses that may be apportioned when the premises are leased.
- Maintenance Contracts.
- Insurance Policies.
- Forms for Consenting to Alterations and Repairs.
- Leasing Material. You should bring subordinate leases as well as necessary information about security deposits.
- Receipts. Be sure to have receipts for documents and money delivered to you or to the lessee.
- Miscellaneous. Before the closing meeting, you may wish to write a letter to the prospective lessee reminding him to bring necessary documents such as power of attorney or other authorizations he will need. You may want to remind him to bring cash or a check for rent, security or adjustments. □

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.