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Commercial Real Estate

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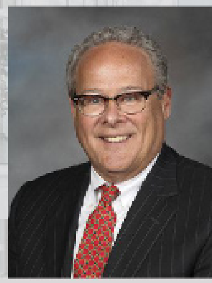
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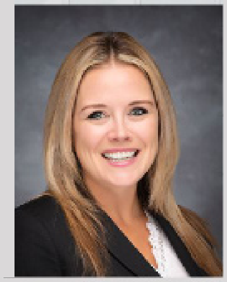
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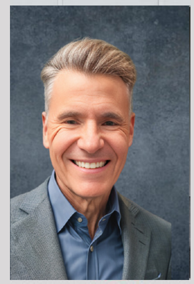
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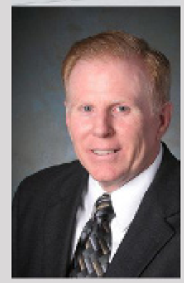
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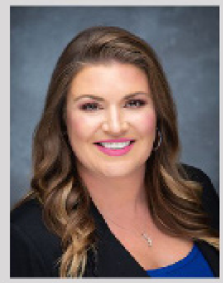
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Real Estate, Tailored To Your Needs.

Our many years of experience and local market knowledge will provide the highest level of service to help you make the best decision for you or your company

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FEBRUARY 2024

The Totally Neglected Property

It is hard to believe that someone can totally neglect a valuable investment property like a multi-unit office building or an apartment complex. It happens. The run down property may have been acquired from a seller who did not understand real estate investments and failed to manage it at all.

The professional investor can usually spot the low-priced and currently unprofitable income property that can be purchased, then upgraded with some reasonable expense so that it becomes a cash flow property. That property can then be added to the investor's real estate portfolio or quickly sold for a profit.

First, a professional management company must take over the property. It is faced with a problem property that the new owner has purchased for the purpose of a "turnaround" for profit.

The new manager must first develop a plan that will help the investment become a success as soon as the new owner takes physical possession. This plan must be short term to get the rents coming in and long term to make it a productive property in the future. The following are some points in a typical plan to create a profitable investment from an underperforming office or apartment building.

Cash Flow

Rental activities and property management functions must be centralized.

Management was nearly nonexistent or the units would not be underperforming. Management efficiency must be improved immediately. For cash flow, rent invoices are mailed on time and payments from tenants can be sent directly to the bank for deposit. Computer financial software can be used for budgeting and for cash management.

A professional management company will already have standard procedures set up and designated employees to carry out maintenance and repairs (schedules for regular tasks such as pool cleaning and landscape maintenance as well as routine requests by tenants for minor repairs such as leaky faucets or cracked windows).

Examine Operating Expenses

After budget is set up, all operating expenses and actual expenditures must be compared to the budgeted amounts. Analyze whether tenants should be required to

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pay for utilities and whether the real estate tax assessment should be protested. (Tax assessment might reflect the time before the property was underperforming.)

Improvement To The Property

Over-improvement of the property too soon can be a mistake. Concentrate first on improving the physical condition of vacant units; then consider making improvements for occupied units that will justify a higher rent when lease is renewed.

An effective way of controlling capital improvement costs is by adopting a regular maintenance program with the standard procedures.

Leasing Policy Changes

Assess the current leasing policies regarding tenant credit checks and screening, discounts for signing or renewing leases, security deposit amounts, and procedures for dealing with delinquent rents. Search for new ways to alter the tenant mix in the underperforming building so as to generate greater profits. Policy changes regarding base rent, for example, may impact favorably on the vacancy level and on payment delinquencies, resulting in a more profitable building as a whole. ❏

Proper Balance Within A Shopping Center

In Recent years, many stores have widened their lines and no longer specialize in only one form of merchandise. Such operations as supermarkets may sell anything from CDs and DVDs to refrigerators, and drugstores are as apt to carry pots and pans as well as pills. However, in order to insure the success of small as well as large store operations within the shopping center, management specialists must try to create a harmonious balance and limit the amount of "overlapping merchandise" that causes unnecessary competition. Big Box stores sell almost everything but are usually a "stand-alone" store

One approach is to regulate the retail character of the center through "purpose and use" clauses in leases.

This is one of the most important provisions in a shopping center store lease. Since the lease term will run anywhere from 10 to 30 years, the tenant will try for a provision that will permit him to make the broadest possible use of the premises. The owner or developer, on the other hand, will be thinking of the welfare of the entire center, and he will want to define and limit the business use of each tenant as to the line of merchandise it will sell. He will also want a provision that controls the kind of products sold and even the price range of the merchandise. In setting up so-called "use" clauses, don't characterize the business merely as a "shoe store" or a "TV store". Instead, set forth the nature of the business in more detail.

The purpose of regulating competition within a shopping center is to establish a proper balance between too much and too little competition within the center. One of the basic attractions of a well-planned shopping center is the potential increase in the business of each tenant because of the proximity of other tenants whose operations are successful. Each tenant wants to be assured that the other stores will be occupied by tenants whose businesses will complement and benefit his business rather than engage in destructive competition with his business.

An exclusive right clause gives the tenant the exclusive right to engage in a specified business or sell a particular line of merchandise within the center or a particular portion of the center. The trend is against exclusives, either for the type of store or for a specific line of merchandise. The reasons for this trend are not hard to find: a large number of shoppers like to do comparison shopping and modern merchandising methods have led many stores to broaden their lines so that a great deal of overlapping results. In most instances shopping center developers should insist that, if they grant an exclusive, the exclusive be limited to the main line of business of the tenant as specified in the use clause in the lease. With this type of provision, merchandise sold by the tenant as an incidental line of merchandise doesn't come within the purview of the exclusive and may be sold by other tenants in the shopping center. ❏

Question A Provision In The Lease

When a landlord and a tenant agree to a commercial lease, it may contain clauses covering things that neither party to the lease ever expects to happen. Occasionally, one of these will happen with costly and damaging consequences to the tenant.

One lease clause that may seem very reasonable to a tenant is one that agrees to subordinate the lease to any future mortgages that the landlord may place on the property. After all, it is reasonable for an owner to want to refinance a property. The result of the provision is that the foreclosure of a mortgage loan will either automatically terminate the lease or entitle the lender, at its option, to terminate the lease (depending on the law of the state involved).

Tenants entering into leases at current market rentals often assume (if they think about the problem at all) that any foreclosing lender will be happy to keep them as tenants. This may not be the case, however, if market rents have risen sharply or where a tenant has received substantial concessions in the form of free rent periods or below-market renewal options–a common situation in an oversupplied marketplace.

As a result, a tenant who may have spent hundreds of thousands of dollars in improving office premises or fixturing commercial space could conceivably be put out of business in the event the landlord defaults on the mortgage. At the very least, the tenant may be able to retain possession of the premises only by accepting a lease with much less favorable terms.

Non-Disturbance Agreement

The landlord wants the lease to be subordinate to mortgages because financing otherwise might be unavailable. A lender may not be willing to finance a property if, in the event the lender takes over, it will be saddled with the existing leases that may be the cause of the landlord's problems.

A small tenant in a large building is not likely to get very far in seeking to eliminate the subordination clause. However, an office tenant taking a large block of space, or a commercial tenant prepared to invest a substantial amount in a restaurant or retail facility, is in a stronger bargaining position. Such a tenant may agree to subordinate only if the tenant receives in return a non-disturbance agreement (also known as a recognition agreement). This provides that so long as the tenant is not in default under its lease a foreclosing lender will recognize the lease and permit the tenant to remain in possession for the balance of the lease term. The clause normally also provides for "attornment," that is, requiring the tenant to acknowledge the lender (or other third party) as its landlord entitled to receive rent.

Will the Lender Agree

A Lease that provides for tenant subordination only in exchange for a non-disturbance clause will not guaranty that a future lender will agree. At the very least, the lender may insist that certain conditions be met before the tenant will be assured of non-disturbance. These conditions should be included by the landlord in the lease clause itself.

Typically, these include the following:

• The lender must not be liable for any unperformed obligations of the original landlord (e.g., unpaid tenant allowances) or be obligated to recognize any rent prepayments by the tenant or future periods of free rent.

• The tenant must not be in default under any provision of the lease.

Note: The main objection of a lender to giving a non-disturbance agreement if the lender takes over the property is that rents may have risen above the contract rental. The landlord then may want to include in the lease a provision that, in the event a lender does take over, the tenant will agree to pay the market rent (as determined by an independent third party). A tenant is not likely to agree to this, except possibly in exchange for an option for the tenant to cancel the lease if the new rent is unacceptable. ❏

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". ❏

Corporate Shared Office Space

With the new revolution in communications, building owners must keep up with the changing needs of the corporate tenant. Often the larger, well-organized businesses do not need the space that was necessary just a few years ago. Electronic communications to and from employees have substituted for leased office space. Managers are more willing to grant favorable lease terms to operators of shared space. The operator sometimes receives a monthly management fee for operating the shared space plus a portion of rent revenues over a certain amount.

Solving Tenant's Needs

Tenants in an office suite are offered a private office within the suite that has a receptionist, secretarial help, conference rooms and other amenities. This can be a big saving for small space users or users who need a small office for only a short period of time.

Another user is from the large corporation that needs small branch offices in different parts of the country. Other users might be individuals who need a private space for investment or other work activities as well as professionals such as attorneys or accountants who work primarily away from their offices.

Existing Leases

Companies that have excess space that cannot be leased in its entirety can use the concept of shared space. The company's existing facilities such as copier rooms, computer work stations, reception areas already are available. Any income from this type of shared space can be nearly 100% profit.

If this is space that is leased by the company rather than owned space, the lease must be reviewed carefully to see if a sublease could violate the sublease/assignment clause of the lease. ❑