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Your Building Must Have Parking To Stay In Business

Parking is not just important at your commercial building or apartment property; it is absolutely crucial to be in business. Without it, potential tenants and their customer reject the building. Parking spaces may be located below, at, or above ground level but wherever located, there must be enough spaces to accommodate the realistic, projectable needs of the particular building.

What Is Adequate Parking?

What determines adequate parking space depends on the kind of building involved and its location. For example, there should be three or three and a half parking spaces per 1,000 square feet of building space at inner city office buildings, according to experts in the field. On the other hand, for office buildings located in the suburbs, there should be at least four parking spaces per 1,000 square feet of building space.

For an industrial or manufacturing building, the preferred parking ratio is two to three spaces per 1,000 square feet of building space. For warehouse and distribution buildings, one parking space for each 1,000 square feet of

building space is usually considered ample, but these layouts must include turn areas for large trucks.

For multi-family housing buildings, the square footage is less significant than the number of units in the building. One or two parking spaces for each housing unit covers most needs in suburban locations, with less parking spaces needed for inner city residential buildings because of the availability of extensive public transportation.

Zoning Codes

Local zoning codes typically include parking requirements for newly built commercial properties. Although the ratio of parking spaces to square footage of building varies from city to city and from suburb to suburb, here are typical requirements:

- Medical facility - 6 parking spaces per 1,000 square feet.
- Restaurant - 10 parking spaces per 1,000 square feet.
- Furniture store - 2 parking spaces per 1,000 square feet.
- Office buildings and retail stores - 4 parking spaces per 1,000 square feet.



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

In This Issue

Your Building Must Have Parking To Stay In Business

Renting Office Space May Give Greater Flexibility Than Purchasing A Condominium Office Unit

What Happens To Rent Free Concessions

Alternative Rental Plans

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.

Your Building Must Have Parking... (Continued)

- Manufacturing facility—3 parking spaces per 1,000 square feet.

Real estate developers emphasize that zoning requirements are *minimum* requirements. A survey found that 42% of developers prefer to add more parking space than local zoning calls for.

Traffic Flow

An important element to consider in determining parking needs is the normal flow of traffic at the particular building. For example, at office buildings, traffic peaks at the employee arrival and departure times (8 a.m. to 9 a.m. and 4 p.m. to 5 p.m.). But clients and visitors, who typically arrive later (10 a.m.) and leave earlier (3 p.m.) have to be able to find parking space within a reasonable distance from the building's entrance.

Shopping centers have a more dispersed flow of customer traffic, with employee parking usually situated in a particular area at some distance from the main entranceways to the stores. Parking spaces for handicapped persons are specifically designated and located near entrances, as required by law.

Industrial buildings may operate with three shifts of workers. And, while visitor parking is usually not an important factor, the overlapping of arriving and departing employees requires careful consideration to calculate an adequate number of parking spaces.

The Older Buildings

Many older buildings (especially those built before World War II) once had ample parking. Over the years, this space either has been physically diminished through building additions or the sale of land, or is now just inadequate due to increased auto ownership and usage. To meet current demands for additional parking space at existing buildings, property owners should consider the following options:

Narrow the stalls. Make each stall 8.5 feet wide (instead of 10 feet). In these days of compact and sub-compact automobiles, this can be done, says the experts, and increase the number of parking spaces by 15%. The cost: a few gallons of paint.

Provide angle stalls. Eliminate right angle parking stalls and re-set them at a 65-degree angle. This maximizes the available parking space at a minimal changeover cost.

Suggestion: Study the vehicles driven by your tenants, employees, and other regular parking space users. If compact cars are popular, designate a special section for their use (you'll immediately gain parking spaces by downsizing individual spaces in that section). *Caution:* Vehicle preferences do change. Don't expect compact and sub-compacts to be the popular size forever. Provide some leeway for bigger vehicles gaining popularity over smaller vehicles. For example, jeeps, vans and pick-up trucks are popular now. Unfortunately, they require larger parking spaces than some other automobiles.

Create off-site parking. A satellite parking lot, with shuttle bus service, works well at airports and large amusement parks. The idea might also work well for shopping centers and apartment complexes.

Add Rooftop Parking. This is possible at just a few locations.

Reduce landscaped areas. Eliminate grass, shrubs, and flowers now decorating a parking lot. Determine whether paving these areas will increase the lot's capacity.

Construct a parking garage. Take a portion of the existing surface parking lot and construct a multi-floor parking garage. This not only provides an excellent long-term solution, but also adds value to the entire property. And there may be potential income from renting out extra spaces for use by nearby apartments or businesses. ■

Renting Office Space May Give Greater Flexibility Than Purchasing A Condominium Office Unit

For many firms, renting office space might work out better than purchasing an office condominium unit. Thus, a company that is growing rapidly may require additional space every few years. This type of company might do better with short-term leases or with a long-term lease containing options to acquire additional space in the building at specified future dates.

A condominium office building can be expected to have infrequent turnovers, and obtaining additional

space might be difficult. But some condominiums use a "right of first refusal," which requires a unit owner who is selling or leasing his unit to offer it first to the other unit owners.

An office tenant can move out at the end of his lease without worrying about disposing of the leased premises. He can retain a measure of flexibility if he is under a short-term lease or if he can negotiate a cancellation clause calling for a specified penalty. ■

What Happens To Rent Free Concessions

Commercial property goes in cycles from full occupancy to overbuilt with vacancies. In some of the areas of the country, commercial space is now overbuilt. When it has been difficult to rent, various concessions have been made to get tenants in and paying rent.

Free rent concessions have been used sometimes to help fill a building.

As an example, suppose there is a building where office space is offered at \$25 a square foot on a five-year lease. The lease can be renewed for an additional five-year term at a negotiable renewal rate. To get tenants into the property, the owner gives a concession of free rent for the first two years. This may sound like an acceptable, though extreme, solution, but might not be good for either the owner or the tenant.

The tenant's cash flow is incredible during the first two years, since he is paying no rent at all. Then it jumps up to the \$25 level for the next three years.

This can cause a cash flow crisis for the tenant. In addition, the tenant's bookkeeping would probably average the total lease expense on an annual basis for accounting purposes. So the tenant's books show the effective rent is \$15 per square foot per year for the five-year period.

When the lease comes up for renewal, the tenant would be negotiating from a \$25 per square foot rental level. But, if the concession was treated as a 40% discount over the first five year term, the tenant would be negotiating from a \$15 per square foot level. This huge difference in the starting level for negotiations can make or break the renewal of the lease. A 10% increase on a level of a \$15 lease is totally different from a 10% increase on a \$25 level.

The landlord has no income from this tenant during the two-year period of the rent concession. However, if the concession is treated as a 40% discount during the five-year period, the landlord will start getting some rent from the beginning. Since the property had such a severe vacancy problem that the owner considered the rent concession in the first place, he will certainly welcome any kind of income during the first year. ■

Alternative Rental Plans

When there are vacancies in commercial buildings, tenants may feel that they are in a good position to seek concessions from landlords on new leases or in exchange for extending or renewing existing leases. Landlords are apt to make deals for two reasons: (1.) The landlord may be facing high vacancy rates, and (2.) The landlord also recognizes that tenants may also be suffering from declining business and are less able to pay the high rentals of a few years ago.

The landlord will be looking for a formula or concession that will give the tenant an economic break, but at the same time allowing the owner to show a scheduled (on paper) rent roll that is sufficient to satisfy a banker who is providing financing for the property.

Alternative Idea In Rentals

There can be a variation in the typical retail rent formula that calls for a fixed minimum rental plus a percentage of gross sales over a specified minimum sales volume. Here are some possibilities:

- **Graduated rent.** Most people starting in

business are short of money. If the negotiation establishes a graduated minimum rental that will give them a rent break in the early years, while producing the overall rental needed by the owner over the lease term both might be happy. (Be sure and check with your tax advisor as consideration should be given to IRC Sec. 467 which may require the rent to be "leveled" for tax purposes.)

- **Rent differentials.** There is no reason that the landlord must charge the same square footage rental for the entire leased premises. The rent charged for the showroom area and sales area may be higher than that charged for stock rooms or storage areas. In exchange for charging a lower rent for the nonsales area, the landlord may want the percentage rental on the sales area to kick in at a lower level or be at a higher rate.

- **Base year rent.** The parties might agree to a straight percentage rent for the first year instead of setting a minimum fixed rental for the first and subsequent years. Then that rent will become the base for all ➤

future years. This will allow the tenant to be assured that a slow start-up will not be a business-breaker because of the need to pay a high minimum rent. For the owner's protection, he may have the right to cancel the lease if low sales in the early months or years result in a too low rental.

- **Rent deferral.** Deferral or free rent is the worst example of graduated rents. In extreme cases, a 10-year lease could offer free rent for the first year. (It might be better for both parties if the period of free rent could come somewhere in the middle of the lease term. This can assist the landlord to "amortize" the loss over the earlier years during which rent has been paid.)

Other Concessions

Don't just limit the negotiations to dollar amounts of the monthly rent. There are other things that can be just as important to both sides:

1. **Recapture provisions.** When the tenant incurs significant costs for leasehold improvements, the owner may agree that the tenant may recoup a portion of the cost from future

percentage rents (but not minimum rents).

2. **Turnkey deal.** The owner might agree to make all leasehold improvements to the premises so that it is ready for the tenant to move in and begin fixturing.

3. **Kickout clause.** A performance kickout clause included in the lease may reduce the minimum fixed rental if sales do not achieve the level mutually agreed on.

4. **Percentage rents.** The point at which gross sales trigger the payment of percentage rents may be raised during a portion of the lease term or during the entire term

5. **Escalation clause.** In the typical lease, the tenant must pay a proportionate share of increases and operating costs as well as a percentage rental. There are adjustments that can be made here. A cap could be put on the maximum amount of escalation costs each year or on the maximum increase each year. Another way might allow the tenant to deduct a percentage of escalation costs from percentage rents; this could be an excellent negotiation for a tenant who expects to show significant increases in sales volume over a period of years. ■

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 be your consultants. ■



A CCIM is a professional real estate practitioner with proven technical expertise in commercial property. A CCIM is a person truly committed to the fundamentals of effective commercial-investment brokerage. The CCIM has completed a full schedule of Post Graduate Level Courses in investments, taxation, development and marketing all types of commercial-investment properties. The designation of Certified Commercial-Investment Member is unquestionably the highest degree awarded in the commercial-investment real estate practice.