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Convert The Use Of Buildings And Make Money

There is a big difference between investing and rejuvenating real estate projects and investing in stocks, bonds and other securities. When you invest in securities, you have no control of any factors that can enhance the value. In real estate, you have control of the investment yourself.

In an investment in converting use of buildings in real estate, the investor can use creative imagination to change a property into something that has a much greater value, and even beauty than before.

But, real estate investments that involve changing the use of property are not for the faint of heart. They are riskier than other investments such as buying an established office building, a hotel or a strip shopping center. There are always unknown factors, more things that can go wrong, and fewer things that you can count on. Success is based more on the future than on the present, and the future must be predicted, partly with respect to the income that the property will be

able to earn once the use is changed.

Remember though, the highest returns go to those who take the highest risks.

Maybe Only Minor Modifications Are Needed

Most buildings can be changed so that they can be used for a different purpose other than the one for which they were originally intended. Therefore, the large supply of existing properties, many of them very solidly built, may be converted to a better and more profitable use. Older buildings were demolished in the past, but now more thought is given to recycling and preserving them.

The most common examples are the conversion of farmland to commercial or residential property. In most areas, large houses have been changed into multifamily apartments or condominiums. Investors have converted many former manufacturing spaces and warehouses into shopping and office complexes. ➔

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

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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.

Convert The Use Of Buildings... (Continued)

Your City Usually Welcomes The Changes

Property that has been declining in condition has also declined in value but can be recycled back to productive use. Immediately the building will be upgraded on the tax rolls to a higher value than before. The city or county now will receive larger tax revenue from the property. A change in zoning is often required for a use-change, but it is regularly granted with little difficulty if the investor has a well thought-out plan, that has the community's needs in mind.

If the conversion is changing apartments to condominiums there may be no zoning change required. Anytime you can avoid asking the city or county for changes in zoning, time can be saved. Another example of continuing with the same zoning is the upgrading of a shopping strip center or mall through physical remodeling and securing different tenants.

Look For Unusual Use-Changes

Manufacturing or warehouse space has been particularly popular for conversion to residential use in many cities. They have big, open spaces that that can be partitioned easily into smaller units; the high ceilings provide an atmosphere that appeals to many people; and the locations are often perfect.

This type of building can often be less expensive and easier to rehabilitate and convert than to fix-up a very run-down apartment building. They

are usually just empty shells so it is easy to design the interior according to what your research shows the market wants. Little, if anything, has to be removed.

Apartment occupants or condominium owners respond favorably to the idea of living in former warehouses, shoe-manufacturing buildings, and even in abandoned schools.

An example of a truly unusual conversion was in Salt Lake City, Utah. Garage facilities that formerly housed and serviced the city's fleet of trolley cars were converted to a highly successful shopping and entertainment center which was named Trolley Square. The owners later added new buildings nearby, adding to the economy of the entire area.

In Chicago, the Century movie theater was one of the most ornate structures of the era of elaborate movie houses. The surrounding neighborhood began to decline. The transformation of the neighborhood began when investors bought and refurbished aging apartments nearby attracting a more affluent residential population. The theater was then purchased and transformed into a seven-level shopping center with 100 retail shops. The complex terra-cotta exterior of the theater was preserved, but the interior was completely gutted and rebuilt.

By cautiously evaluating, then changing the use and remodeling the underutilized property, you can share in the sizable profits of property-use-change investments. ■

Commercial Offices

Commercial office buildings rank as the favorite real estate investment of most large institutions, insurance companies, pension funds, banks and foreign investors. With this kind of recommendation, they should have the same sort of interest for the smaller investor.

With an ever-expanding economy, the amount of business and financial paperwork increases. Each year more space is needed to house the personnel who do this work. The need for office buildings seems to increase every year. There is a growing demand for space from local, state and federal governments in addition to the increased demand from the private sector.

There have been some vacancies in office buildings in some parts of the country. How-

ever, in many large metropolitan areas such as New York, Boston and Washington D.C., the vacancy rate has been low.

Long-term vacancies can be dangerous in office buildings. The fixed costs of real estate taxes, insurance, utilities and financing can cause the loss of the property. As an example, insurance costs can be **three to four times higher** on an empty building.

The Investment Return

The return on the investment can be good. An office building that is fully occupied has a rental income less operating expenses that compares favorably with a shopping center investment, and is usually substantially better than the typical apartment investment. ➤➤

Commercial Offices...*(Continued)*

In a shopping center the rent may be computed on a percent of the retail sales — not so in an office building. The rent in office buildings is often fixed for the duration of the lease, with a formula tied to the rate of inflation and other factors — all designed to maintain or enhance the profit margin.

When the owner increases income in an office building, it must come from rents. Keeping rents at a proper level at the time of a lease renewal is obvious. Consider charging rents based on space used by the tenant plus a percentage of space represented by restrooms, hallways, atriums, rather than space actually within the walls of the tenant's unit. A difference of over 10% between **usable** space and **rentable** space is common.

Another saving can be in changing the leasing of the building from a **gross basis** to a **net basis**. In a **gross lease**, the lessor collects the

rent, but is responsible for all of the operating costs, such as real estate taxes, utilities, maintenance, management, etc.

Switching to a **net lease** on renewals for new occupants, all of the costs are allocated to the tenants on a pro-rata based on the square footage being used.

However you compute the terms of the lease, the pressures of the marketplace may cause the rents to remain the same or go down.

Companies that previously have been lessees of extensive space have reduced the need for some office space because of more efficient space planning and reduced home office personnel. Some have employees working from their homes, in touch with the office by computer. These trends will have little effect on the demand for office building space. Management and social realities dictate that office locations of some kind are needed for nearly all businesses. ■

High Yields In Industrial Parks

Office buildings and apartment properties have been leading the commercial properties. Close behind apartments and offices as a preferred investment has been industrial buildings, particularly industrial parks. Industrial parks are often overlooked by real estate investors because this investment has been considered the domain of experienced professionals.

For the past thirty years, there has been a move on the part of industry to relocate from the cities to the suburbs. The lure of cheaper land costs and the larger labor sources have been the prime reasons. This has resulted in the establishment of industrial and office parks. Many of these are planned and developed by private investors; others are planned or sponsored by public agencies. Preparation for construction of an office or industrial park includes plotting, grading, and installing streets, utilities, rail connections and other facilities. With the increasing difficulties in securing clearances and permits, speculative development in building these facilities is down. This type of development was a high-

risk situation for a developer for some of the 1980s.

Site Location Strategies

The market for industrial sites may consist of companies that want to be close to their customers (either final customers or other businesses), want to be near sources of plentiful raw material, low-cost labor supply, low-cost land and facilities or companies that want manufacturing or warehouse facilities in a particular place as part of a regionalization program.

For a company to be close to its customers, the land is best located in areas where the population is already dense or growing rapidly. If the prospective tenant or buyer supplies components to other industries, the location should be convenient to the industries served.

Purchasing property near the site of a large new plant, such as an automobile manufacturing facility is one of the best location strategies. Manufacturers of components for the large industry will soon be looking for nearby sites so they can better serve those customers while minimizing transportation costs.

Industrial land located near raw material sources attracts companies seeking to reduce ➔

High Yields In Industrial Parks...*(Continued)*

their transportation costs for fuel and manufacturing materials. Aluminum and glass companies, for example, are attracted to areas with plentiful sources of energy. For companies like these, fuel availability is the most important consideration. It should also be one of your most important considerations when selecting a site for industrial land investment.

For a company regionalizing its operations.

The most important factor is transportation to and from the regional manufacturing or warehouse facility. For these firms, access to good highway transportation and railroad facilities is the main factor in their location decision. Some industrial companies also want access to air and water transportation, especially if they have a substantial export business.

A New Demand For Space

Recently, there are new trends in office and industrial parks throughout the country. With the decrease in speculative development, there is an increasing trend in the number of build-to-suit projects. Demand for space in office and

industrial parks has picked up.

Not long ago, there was an oversupply in these parks. The supply has now reduced and vacancy rates are down. Since there is less new construction under way, this also adds to the demand outbalancing supply.

The Benefits of a Build-to-Suit

With the increased demand, and little space available, tenants have turned to commercial brokers and real estate developers and arranged for construction of build-to-suit parks. The build-to-suit market has benefits for both the developer and the tenant.

The developer has a known tenant standing by to occupy the property as soon as it is completed. The cash flow starts immediately as soon as the project is constructed. The high risks of speculative development are over for the developer.

The tenant in the build-to-suit facility does not have to compromise on size or types of buildings. His exact needs can be planned in advance and worked into the original plans. ■

Real Estate Investment Consultants

When you need professional advice and help in commercial real estate you must come to our office. We are experts in values and knowledge of the entire market in this area. If you have been looking for a certain type of property we probably have the full information on several like it already.

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. As your professional commercial real estate advisors, we are in the position to represent you in real estate transac-

tions by setting up sales, exchanges, leases, purchase and sales of options, and management of real estate

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.

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 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.

We can 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.