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Your Apartment Checklist

If you are not getting the top dollar per square foot for your apartment units, there may be some things that can be done to improve the picture and first impression that your potential tenant sees at your building. The first impression that you get of anything, any product, means a lot. It is the reason that packaging plays such a vital role in the marketing of everything that we buy. Real estate is no exception. If your tenant doesn't get inside, there is no sale.

In an apartment building, outside appearance affects not only an ability to attract prospective tenants, but the rental program as well. The following is a check-list of first-impression items that a good property manager will use:

- How does the building look? Does it need painting? Do any windows need to be replaced? In what condition are the drains, gutters and awnings?
- How is the landscaping? Has the lawn been mowed? Are there any bare spots? Do the shrubs need trimming or cultivating? Have animals fouled any areas? Are gravel-filled areas well maintained?
- How does the entryway sign look? Are all signs in good shape? Do any need to be

repaired or painted? Are they well lighted?

- Are the walks in good repair? Are they well lighted and free of cracks and debris?

- Is the parking lot well maintained? Is it kept clean and free of litter? In winter, are snow and ice quickly removed? Are there potholes? Is the lot well lighted?

- Is the entrance clean, well lighted, and free of debris, dirt, umbrellas, etc.? Be sure that bicycles, baby carriages, and the like are not blocking the entrance.

- Are tenant's mailboxes polished? Uniform lettering on all boxes looks best.

- Are the hallways clean, neat, and well lighted? They should not be cluttered with umbrellas, boots, floor mats, toys, baby carriages, etc. Do any light bulbs need to be replaced? Are any carpets stained? Are the walls, ceilings, and doors clean and in good repair? Do all doors close properly? Are apartment numbers on the doors? Are there adequate locks on all doors in the building? Are hallway mirrors clean? Are elevators and

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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.

Your Apartment Checklist ... (continued)

stairwells clean and adequately lighted?

- Is the incinerator room clean? If there are garbage disposal areas, are they clean and orderly? No litter should be lying around.
- Do any fire extinguishers or exit signs need to be replaced?
- How does the on-site manager's office look? Is it neat and clean? Does it reflect an orderly run building?
- Does the apartment being shown look as if a willing tenant could move in immediately? The unit's kitchen should be neat and clean. Are the cupboards bare and spotless? Is the sink clean and stainless? Faucets should be shining. The stove and oven should be clean. Is the refrigerator empty and sparkling clean, and does it smell fresh?

- What is the condition of the bathroom? Are the tub, sink and toilet clean and stainless? Are the faucets and other hardware polished and sparkling? Is the whole room scrubbed?

- Do the walls and ceilings need repair or painting? What is the shape of the floors? Do all of the doors work well? Does the entire apartment smell clean and fresh? Are all windows clean and clear?

- Do all lights and outlets work? Do bulbs need to be replaced? Do any light fixtures need to be replaced?

- Are all the closets empty? Be sure that phone books and hangers left behind by the last tenant have been removed. Don't forget to sweep out the closets.

- Is there anything that needs electrical or plumbing work? □

Upgrading An Older Investment Property

One of the ways to increase income and value is to upgrade an older property. In every community, anyone who looks can usually find a number of commercial buildings, apartments or offices that need to be modernized. Some are for sale because the present owner may not recognize the increased return that they could get or do not want to make a further investment. The property might be purchased at a bargain price that is based on the current cash return.

When you set out to upgrade an older building, you will encounter three kinds of deterioration or obsolescence: *physical deterioration, functional obsolescence, or economic obsolescence.*

The first of these, *physical deterioration*, starts immediately after the building is completed and continues throughout its entire life, unless it is handled along the way with proper maintenance and repair. This type of deterioration usually can be taken care of by routine repairs and replacement of parts. Anytime the acquisition of a run-down building is being considered, the investor must be certain that the deterioration has not become so bad that the building will have to be demolished.

Functional obsolescence happens when the property loses its usefulness as a result of changes in styles or in the needs of tenants. As an example, an older

apartment property could have an electrical system that is inadequate to handle modern appliances such as air conditioning, microwave ovens, computers, television or other recently developed equipment. This type of obsolescence can be cured usually by installing updated equipment.

Economic obsolescence is a change in value that is caused by circumstances that are not directly related to the property. Often this is a change in the neighborhood, such as a change in the use from residential to commercial or industrial. When this has happened, modernization of the building may not be worthwhile. If the building is structurally sound, it could be a good prospect for conversion.

Five Ways To Upgrade

There are five ways usually used to modernize a building. These are: (1) structural changes; (2) architectural changes; (3) functional changes; (4) mechanical replacements; and (5) aesthetic improvements.

When a building is quite old, structural changes may be needed for safety reasons. Before you purchase the building, a professional engineer should make an inspection. This can determine whether the building is structurally sound and what changes, if any, will have to be made.

The building can be partially redesigned with architectural changes during the modernization. If ➡

Upgrading...*(continued)*

a building has very distinctive architectural features rather than a plain exterior, some investors feel that the property has a greater investment potential.

Functional changes and mechanical replacements can reduce costs in an old building and increase efficiency. Wiring will usually need to be replaced to provide safety for modern electrical and computer equipment. Old heating systems will usually be inefficient and cause high maintenance costs, and should be replaced. An example of a mechanical replacement would be a change from a manned electric elevator to an automatic system for a saving in labor costs.

Aesthetic improvements are the sprucing up of the property and can usually be done at a relatively little cost. When an investor is looking for a quick resale, this type of improvement may be done rather than some of the others. Cleaning up the property, inside and outside, installing new lighting and repainting the building can be

enough sometimes to make a quick, small profit.

Why Do The Upgrade?

When an investor is looking for the proper investment, older apartment buildings in good neighborhoods often look better for a long-term commitment than new construction. When a property is modernized, rents can be raised substantially and, if the work can be done without disturbing the existing tenants, the investor will not have the expense of carrying the property as he would in new construction. He would also hope that most of the existing tenants would stay and pay the increased rents, so the costs related to acquiring new tenants, as would be needed with a new construction, would be avoided.

Finally, the overall costs may be less. Although the price of the property may be high in relation to the current rents, the final cost after modernization may be far less than the cost of new construction. With this lower cost, the investor may be able to charge lower rents than new buildings nearby, putting him into a very competitive position.

Conversion To A New Use

Unproductive properties can present

opportunities for big profits. When a building is bringing in little or no income because of obsolescence or because of changes in the neighborhood that have made the location unsuitable for the original use of the building, converting to a new use can make a new profitable income stream. As an example, a movie theater in an area converted to industrial might be changed to a factory or warehouse. Some neighborhoods have changed from warehousing and factory areas to residential. A factory building that is no longer being used could be converted to a residential condominium project.

Don't overlook properties that are still productive, but may have a much greater potential after a conversion. A chocolate factory was converted to a shopping center on the west coast. Movie theaters have been converted to supermarkets. Garages have been converted to condominium parking buildings. Seeing potential profits in older buildings takes imagination. □

Buying Risky And Troubled Properties For Profit

In any market, good or bad, there are always problem properties. Most are only troubled or problem properties because of the current ownership. Some may be neglected only because the present owner has failed to do fairly simple things that can solve the problems. Buying property and solving problems is a profit-making business.

Have you seen: An empty office building. A remodeled apartment house or hotel that has an excessively high level of vacancy. A large tract of undeveloped land that no developer has become serious about wanting to develop. These are examples of troubled property-property that is a definite financial burden to continue to hold but which also is unattractive property to some prospective buyers.

Unattractive, that is, until very recently.

The timing now seems increasingly right for investors to obtain troubled property at bargain prices. The pressure on owners and lenders with troubled property to get out from under the on going burden is high. The result is that syndicates have been

Buying Risky and Troubled Property... (continued)

formed to seek out and buy up troubled properties.

High Risks

Knowledgeable property developers and managers (especially those familiar with empty or near-empty office, hotel, and apartment buildings) caution that buying troubled property requires taking a very high risk. The financial returns are uncertain and may be a long time in coming, if they come at all. This type of investment is not for everyone; it's for those who can afford high risk situations.

The profits can come from any one or a combination of circumstances.

- A market turnaround caused by a boom in the local and/or national economy.
- An improved system for promoting and operating the property. Some syndicates are being formed solely to manage the troubled property with an option to buy when and if it hits a specified profit level.
- Purchase of the property at a bargain price, often combined with imaginative and untraditional financing techniques. Some lenders are asked to share the financial risks by accepting a low initial interest rate in return for a big share of the profits later on. Sometimes the seller of the troubled property is asked to

retain a financial stake in the property and to help turn it around. The seller's experience and involvement in the project from the start can be valuable.

- Including the troubled property in a larger development plan. An office building that sits empty might become part of a new industrial park with hotels, conference facilities, and residential apartments, all of which are successful.

Take another look at troubled properties in your area. With fresh new ideas and a restructuring of the mortgages, the troubles may go away, leaving a profitable investment for you. □

Commercial Real Estate Representation

There are a number of ways to buy, sell or exchange investment or commercial real estate. Having the knowledge of what you can do in some tax situations can be the difference between an annual profit or loss in a property that you intend to acquire or one that you already have in inventory.

The professional commercial real estate broker is in the position to represent clients in real estate transactions by setting up sales, exchanges, leases, purchase and sales of options, and management of real estate. A professional

real estate practitioner must stay 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 CPA. We always recommend meeting with these other professionals during the planning and closing of major real estate transactions.

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. We should meet with our clients on a regular basis to evaluate their present position in properties, reviewing plans for future acquisitions or exchanges.

Reviewing your plans and goals can give us the information needed to help us in moving you in new directions as soon as possible, using purchases, sales or tax deferred exchanges. □



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.