INSIDE COMMERCIAL REAL ESTATE

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The Major Changes In Shopping Centers

In years past, the big draw to a shopping center was the multi-screen movie theater and the major department store. The key tenant in a shopping center was often a department store from a nationwide chain that carried a wide variety of quality, brand-name merchandise. Many of the large department stores have now closed their doors leaving the centers without a major tenant mainly because of the Covid lockdown. Online shopping became a necessity and later a habit. Many businesses closed their doors and have never reopened them.

Now that life has recovered and things are back to normal, the shopping center of the past has had to rethink how to get the online shoppers to come back to the malls and experience the pleasure of physical shopping again.

The Success of Todays Mall

The success of todays mall no longer is measured by sales per square foot and the bottom line of a retail store, it is measured by how long people remain in the center, how they interact with the environment, and ultimately what keeps them interested in the center as a shopping and entertainment venue. The in-person retail buying adventure in malls remains valuable because it offers something digital shopping can't replace, the connection to the outside world, the presence of activity and the connection with other people. Shoppers still need the ability to see, touch and try products before they buy.

Investors and developers have recognized that the classic centers may not be able to sustain foot traffic like yesteryear. They are looking for more creative anchor tenants to replace those empty spaces left by the major department stores. Turning those spaces into something new, businesses that keep potential buyers coming back to the center. Fitness centers with swimming pools, a basketball court, saunas, an indoor turf running track, yoga studios, gaming centers, grocery stores, healthcare clinics, auto supply stores, even dollar stores. The large malls have turned spaces that used to be retail stores into other uses, such as, pickleball facilities, churches, ice skating or roller skating rinks and escape rooms. These "different" business are increasingly drawing visitors who also become customers in the retail stores.

The Next Generation of Malls

The shopping center of tomorrow is an entertainment center, and a gathering place offering much more than just a place where you can buy consumer goods. It hinges more on participation and activities.

Mall Of America in Bloomington, Minnesota, which was one of the first centers to offer entertainment mixed in with retail shopping, is planning a major project called "Mystery Cove" an indoor water park scheduled to open in 2029.

Many shopping malls throughout the country are improving the atmosphere of the center by replacing the 'old' outdated food court with a more elegant eating experience such as an outdoor plaza, water fountains, terraces, sidewalk cafes and adding inviting and comfortable seating areas. ❑

Is It A Good Idea To Move A Building?

Chances for profits can come along and most people will never see them. Have you ever seen a sign on a house or other building that says, “For Sale, To be Moved?” This could be an opportunity for anyone, particularly if that person owned or can acquire a vacant lot nearby in a commercial zone.

What if there is a $300,000 structure offered for sale for $40,000 – the land has been condemned to make way for a municipal use, and the building must be moved or torn down. It could be a good investment to buy the building and have it moved to a new location. The asking price is low because of the expenses of moving it.

Obviously the size and shape of the structure matters a great deal. When determining the cost and the time to move an 800 square cottage it’s very different than moving a 2,400 square foot structure. Also the costs will vary greatly in different areas.

There are many factors that must be taken into consideration. What is the foundation made of and what Is the building constructed of: wood, stucco, bricks, or other material?

The buyer will have to check in advance with governmental and utility companies for permit costs and charges to pay for removal of traffic lights, street signs, telephone, gas and overhead electric lines along the route. It could be a nice profit in an unusual real estate investment.

Moving a building can be smart in other situations. Here are a couple of ideas:

- A house sits in the center of a large property that could be subdivided. Move it to one side of the lot, subdivide and sell parcels or build on the lots for sale.
- A commercial building is for sale because a two-lane highway in front is being widened. If the sale price is low enough and the lot deep enough, maybe it would be practical to move the building to the back of the property.

Nearly any house is capable of being moved. The question that separates the shrewd investors from those who get into trouble is whether it should be moved.

Garages, additions, porches, decks, balconies, fireplace chimneys, can almost always be moved with the house, but will add time and increase the project cost. In most cases, if the building can be moved with the accessories intact, it is cheaper to do so than to remove and rebuild them.

Some large houses can be cut into two parts and reassembled at the new location. Now you have two commercial buildings. This could be a nice profitable investment.

Take care with very old, historic houses. They might not survive a move and still be the same gem of a structure they were before.

In most cities there are lists of House and Building Movers listed on the internet. These professionals can help evaluate any certain building. ❏

The Management /Investor Conference

Property owners own investment real estate for profit. With proper management, they can earn a good return monthly from one property or a portfolio of properties. However, a certain property may have been acquired for an upgrade, to bring in income later or sell for a capital gain. Either way, the investment must be managed, considered, and watched at all times. If the owner and property manager are taking care of business, there may be ways to increase the income, or the value.

Owners of portfolios of stocks and bonds meet with or call their stock broker often. It makes sense for real estate investors also to meet with their real estate investment representative and property manager often, perhaps quarterly. Exchanging ideas with the professionals who have the daily pulse of the real estate market can be profitable. At each meeting, the investor can plan on finding out the current market conditions that will have an effect on equities that are owned or that can be acquired.

In many cases, the owner’s investment representative is also the property manager. If not, the investment consultant and property manager should always meet with the owner together since both share the responsibility for improving the owner’s position.

The Conference

Planning any professional meeting will make it more productive. To keep a business meeting on track and save everyone time, notes should be made in advance by the property portfolio owner or the broker. The following are some examples of questions or subjects that might be discussed at each meeting; or some at least once a year:

1. Are there ways that the management of the properties be improved? Can any current expenses be decreased? ➠

(continued)

2. How do our rent levels compare with the others in the immediate area?

3. Have there been collection problems–are all rents current at this time?

4. Is the current maintenance of the properties up to the best standards?

5. Has the planning department approved any zoning variances in the areas of my properties? Would it enhance the value of any property in the portfolio to apply for a change in zoning?

6. Have any new construction projects been started nearby? What are they and what effect might they have on my properties in the area?

7. Is the present use of the properties the highest and best use?

8. Could improvements be made that would increase the income?

9. Are we attracting the kind of tenants that should be in this type of property?

10. Are any properties of the type we own on the market at this time in this immediate area?

11. Would there be any benefit in a refinance of any properties at this time?

12. Are any properties in this portfolio suitable for a condo or co-op conversion? If so, should we do the conversion or sell the property to an expert in that field?

13. Can we offer any property for syndication? How would we handle it?

14. Which of these properties has the best set of benefits for the present owner? Which has the least benefits?

15. Which of the properties in the portfolio would be the most desirable to dispose of at this time?

Goals for Acquisition

When each of the points in the meeting has been covered, both the property owner and his/her management and investment representatives should have a much better picture of the property portfolio and what should be accomplished. At this time, maybe each property owned should be graded in order of the most desirable to the least desirable to continue holding. Then the answer to item #15 will be apparent.

That answer may be an important result of the meeting. The goal should be set for the sale or exchange of the least productive property (to this owner) in the list of real estate owned. This result is very satisfying since the "weakest" property is identified and the goal is set to use its equity to acquire a certain type of real estate that will fit better into this owner's portfolio.

This gives a result for the owner that is seldom achieved by many investment real estate owners. At all times, there is a definite effort being made by a top real estate management and investment team to improve the owner's position. ❑

Acquiring Investment Land

Land is one of the top investments by real estate professionals. Before any building project can be planned, the land must be available. At all times, real estate assemblers are looking at and acquiring under-utilized sites within cities or in suburbs. Here are some ideas on how those professionals do it.

• **A thorough knowledge.** Only purchase or option property in well-known localities to reduce the risk of unexpected surprises. If the locality is not familiar, seek out local professionals for their opinions.

• **Be a follower.** Being the first to buy increases the risk of being wrong and may mean an unexpectedly long wait until values rise. It is often better to go in after values have begun to increase or after some development has started.

• **Government maps.** Local governments often have maps and plans for projected roads and highways. These can point the way to desirable acquisitions.

• **Prepare an acreage map.** The map should show the ownership of all tracts in the locality and (if known) the asking price of each. This step marks the prime difference between the professional and the non-professional land acquirer.

• **Seek out builders.** Try to find a builder willing to let you act as an intermediary in acquiring land.

• **Option or installment contract.** When acquiring property, get a firm commitment from the landowner without the buyer having to pay out cash. This can be done either with an installment contract under which the buyer can pay interest only for the period of years with a right to walk away without further penalty.

Note: An investor or investment group retained by a builder to find land is obligated to give the builder the first opportunity to buy in all cases. However, any land the builder does not want may be a good investment for the assembler since its value is likely to increase as new construction occurs. ❑

Controlling Property With A Purchase Option

A purchase-option contract lets the buyer-optionee purchase a property at a specific price within a certain period of time. If the option is exercised, a closing is held and the property is purchased at the price previously agreed upon. There is no legal obligation to buy the property. But, if the optionee does not exercise the option, the deposit paid to the seller-optionor is forfeited.

The biggest differences between the purchase-option and direct ownership may be two advantages from the viewpoint of the investor: First, the short term (6 to 24 month) purchase option contracts can be an outstanding way to control property without assuming the responsibilities of ownership. Second, the contract enables the optionee to receive all of the benefits from appreciation in market value of the property.

Basic Responsibilities Eliminated

There are five basic responsibilities of property ownership that are eliminated by using the purchase-option contract:

Long-term Commitment. With many investments, there will be no cash profit from property ownership until the property is sold. With the purchase-option, the responsibility for a long-term commitment of ownership is eliminated. The optionee's commitment is short-term only, with the ability to sell the option, buy and immediately sell the property, or never buy the property.

Mortgage Payments. There are no mortgage payments made by the optionee. He has eliminated the responsibility to "pay for" the property during the period when the purchase-option is open and unexercised.

Property Management. There will be no responsibility with respect to managing and maintaining the property unless the optionee exercises the option and takes possession of the property. In a straight purchase, the buyer must begin maintaining and managing the property right after closing–a time consuming and costly responsibility.

Cash Payments Required. As we all know, property ownership involves payment in full or cash down payment (10% to 25% or more). When the property is controlled with the purchase-option, the down payment is replaced by an option deposit (the consideration in the contract), that can be in a much smaller amount, perhaps in the 1% to 5% range.

Financial Liability. Optionees have no financial risk in the property other than the amount paid in the option contract. The property owner must pay the property taxes, mortgage payments, insurance payments, maintenance and repairs and any other obligations of ownership.

The optionee has the specified period of time that is in the term of the option in which to buy the property or decide to pass. During the time, the optionee can evaluate the potential and make those decisions. It is certainly the best way to hold a property for an increase in value over a very short term.

Control Of Property

Most real estate investors have traditionally been attracted to commercial real estate opportunities. Typically these investors have been well rewarded for their investment. Properties that are designed for "doing business" proliferate and succeed as businesses grow and diversify and become more and more profitable. For investors to be successful it is important to understand the operation of the particular commercial enterprise involved in the real estate investment.

However, some investors look for the short-term investment with less of an emphasis on "doing business" and more pre-investment research on controlling property for the maximum gain in the short term. These investors often use the option or purchase-option. ❑

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