

Increasing NOI in a Down Market

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Declining commercial real estate markets created by turbulent economic times and worries of an uncertain future can vex even the most experienced property owners. While it's very easy to get caught-up in the herd mentality of the pundits and other industry naysayers who portray a doomsday mentality, it's considerably more profitable to get creative in your approach to increasing your cash flow. Remember that more significant and lasting wealth is created in down markets than is ever created in robust markets. However, the opportunities that exist in today's market climate only go to those willing to adapt their operating philosophies to creative an flexible strategies and tactics. In the text that follows, I'll provide you with 7 different strategies to increase your cash flow now...

Accelerate Your Depreciation: Even though Cost Segregation is nothing new, I'm amazed at the numbers of commercial real estate owners who have not taken advantage of the financial benefits so easily available to them. In a down market where times are tough, Cost Segregation is one of the few operating tactics that can immediately decrease your tax burden while increasing cash flow. The reason cost segregation is so valuable is that it can be applied when constructing a building, buying an asset, to an existing asset you currently operate, or in certain circumstances, years after disposing of a building so long as the year of disposition still is open under the statute of limitations.

Renegotiate with Lenders: In many cases today, lenders have no idea what your property is worth, and whether or not they're underwater on your debt. It is not uncommon to find properties where the current debt far exceeds the current market value. If you find yourself in a situation like this, it is quite possible to restructure your debt via a loan modification that can both reduce the principal amount of the debt you owe, while immediately improving your NOI.

Use Creative Signage: If you view signage as just another item to negotiate with tenants, then you may be missing a significant opportunity. Depending on the size and location of your property, there are any number of companies who will pay you for the privilege of placing advertising on your building. The creative use of wallsapes, traditional and digital billboards, banners, and other forms of signage afford the possibility of increasing your revenue.

Monetize the Sun: Depending on the size of your roof and the climate of the geographic area in which your building is located, you can place solar panels on the roof to generate energy. You can receive federal and state tax credits as well as revenue from selling the energy. Alternatively, if you don't want to deal with the time and expense of retrofitting your roof, you

can turn the entire process over to solar energy aggregators by simply leasing the roof space and they'll do all the work.

Can You Hear Me Now? Again, depending on location, as well as the carriers serving your market, mobile communications and wireless internet providers may be willing to lease a portion of your property or roof space for cellular towers, WiFi hot spots, etc.

Leverage That Asphalt: Many property owners don't leverage their weekend and evening parking capabilities. If your located in close proximity to sports arenas, conference venues, concert halls and the like you can easily turn your parking area into a revenue generator by leasing the parking concession to a third party, or doing it yourself. Alternatively, if you have significant parking space available, flea markets, farmers markets, car shows, gun & knife shows, hobby shows, etc., are always looking for large open areas on the weekends.

If At First You Don't Succeed: If you have a large vacancy, consider using it as an opportunity to reposition your property for a higher and better use. A market shift that created the demise of a certain use or tenant mix may also present a significant opportunity for property owners to cater to a different use or tenant mix not affected by problems that plagued previous tenants.

Serve the Community: Many churches and civic organizations need evening and weekend meeting space and are very willing to pay for it. These can be very long-term relationships that can generate significant cash flow off of space that might normally go unused.

Find a Partner: If you can't continue to hold an asset based upon your current financial strength, or lack thereof, consider taking on a partner. Aside from all the usual suspects (lenders, investors, developers, other owners, etc.), an often overlooked category of partners are existing tenants. You may find a current or prospective tenant that desires to transition from a lessee to a principal with a carried ownership interest. The opportunity to secure a source of additional liquidity and balance sheet strength could be just what it takes to hold onto a property in this market.

The reality is that while many owners can take advantage of the items discusses above, not all principals are in a position to navigate current market complexities by riding out the tough times, and may need to consider cutting their losses. Whether you need help executing any of the strategies above, or need assistance in exiting a property while minimizing risk and loss, I would encourage you to reach out to me at any of the contact points listed below.

Author Biography:

J. Todd Clark, CCIM, serves as a Senior Advisor for Sperry Van Ness specializing in the brokerage, leasing, property management, development, syndication and exchange of medical and general office, retail, and hospitality properties in Lexington, Kentucky.

With over 18 years of experience, Clark has brokered and managed numerous transactions and assets in excess of \$100 million. Clark obtained his CCIM designation in October of 2008.

Prior to affiliating with Sperry Van Ness, Clark owned Clark Southern Investment Properties, a full service commercial real estate firm.

Before owning Clark Southern Investment Properties, Clark served as the Vice President of Operations for Office Suites PLUS - a regional office suites company - where he managed an office portfolio with 20 locations throughout the Midwest and Southeast regions of the U.S.

Previously, Clark served as National Director of Sales and Operations for StudioPLUS Hotels where he managed a \$100 Million, 30 hotel portfolio throughout the Midwest and Southeast regions of the U.S.

Active in the industry, Clark is a member of the Lexington-Bluegrass Association of Realtors (LBAR), Kentucky Association of Realtors (KAR), the National Association of Realtors (NAR), the Commercial Property Association of Lexington (CPAL) and the Kentucky CCIM Chapter.

Clark earned a bachelor's degree in Psychology with a minor in Business Administration from Transylvania University in Lexington, Kentucky where he currently resides.

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