

[Back](#)

Article published Sep 14, 2007

Routine checkups are key for investment real estate

By Dan Scanlon

The other day a message appeared on the dashboard instrument panel of my car telling me that it was time for a regular service. I also have regular checkups with my physician and dentist and check periodically with my financial adviser and attorney regarding my retirement funds and estate planning documents.

It's wise for owners of investment real estate to conduct regular reviews as well, because there may be opportunities that exist that could enhance the value of your property or the annual cash flow. Here are the major components to look at. **Land**

- **Zoning and subdivision analysis:** Although they don't occur frequently, zoning changes do take place. In some cases, they allow more uses than previously. In other cases, there may be an opportunity to ask for a zoning change if the character of an area has changed, opening up possibilities for more uses. If you have a large parcel, there also might be a possibility of creating a new lot (or more) via subdivision.
- **Abutting property acquisition:** Your adviser can work with you to take a look at surrounding properties to see if any of them can be acquired and annexed to your existing property for expansion in order to generate more revenue. In some cases, assembling a group of lots can enable the development of an entirely different property than currently exists. **Building**
- **Alternative use analysis:** Is your building old and outdated for current uses? Has the character of the area changed? An adviser can work with you to review your building's current use, and whether an alternative use would be more cost effective, or would generate more cash flow. Some capital expenditure might be required, but could be offset by additional cash flow.
- **Capital needs analysis:** You want to keep your property in top condition, in order to keep costs down and to attract quality tenants. An adviser can provide an objective review of what capital needs should be addressed, and can refer you to professionals who provide those services.
- **Tenant mix analysis:** The types of tenants you have play an important role in the success of your property, both in attracting customers to your property but also in attracting other tenants. This issue is generally more important in a larger shopping plaza or office building, but can also be important in smaller properties. What role does changing demographics in your area play with respect to the types of businesses consumers are looking for? What types of tenants would complement those you already have? Are there some tenants that don't fit anymore?
- **Lease audits:** When was the last time you looked at your leases? Are you on top of various dates in the lease, such as termination, renewal or option dates? Is there an option to purchase? Are there deadline dates by which renewals or options must be exercised? Is the current tenant the same entity as that on the lease? Are all terms of the lease being complied with? Are you capturing all of the rent you are entitled to? Are you properly calculating and passing through common area maintenance charges, property taxes and insurance?
- **Operating vs. capital expense analysis:** The "bottom line" for a real estate investment is net operating income, or NOI. The higher your NOI, the more valuable your property. We often see owners treat capital expenses as operating expenses, thus lowering their NOI.
- **Tax abatement analysis:** Have you reviewed how your property is assessed by the city or town in which it is located? We have seen property owners save considerable money by having their property tax assessment reviewed and then abated.

- Cost segregation analysis: The Internal Revenue Code has several cost-recovery (or depreciation) categories, but many property owners use only one (usually the longer one that stretches the deduction over many years). It might be possible to reallocate portions of the property to different categories, resulting in higher deductions and better cash flow.
 - Additional revenue opportunities: The three major additional revenue opportunities for investment properties are signage, parking and cell towers. Does your property lend itself to these?**Resale**
 - Property valuation or appraisal: Do you know what your property is worth in today's market? Are you aware of current financing conditions? You can make better long-term plans if you know what your property is worth now, and what direction values are going in over the next three to five years.
 - Document and records management: I can't emphasize enough the importance of having documents and records available when it comes time for resale. And that time may come sooner than you expect. In my experience, resale is much more common due to various "life events," such as retirement, divorce, business breakups, disability or death, than it is for pure business reasons. And when those events occur, you want to make sure you can put your hands on all of the documents that will be needed for the sale. Dan Scanlon is an investment broker with Grubb & Ellis/Coldstream Real Estate Advisors Inc., Bedford. He can be reached at 623-0100 or dscanlon@coldstreamre.com.
-