

Introduction to Commercial Property Management

From a Developer's Perspective

2/24/18 Presentation By:

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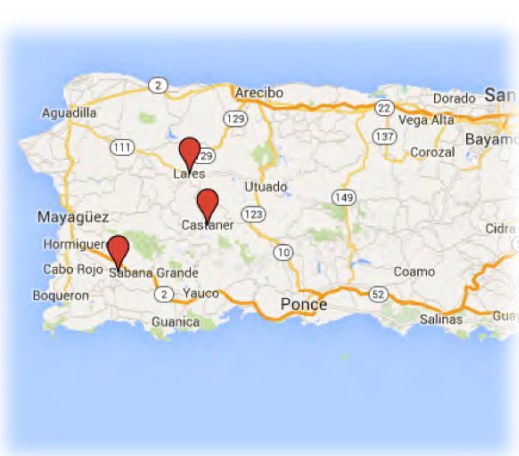


Agenda

- I. Introductions
- II. Concept Feasibility
- III. Lease or Buy Strategy
- IV. Commercial Lease Considerations
- V. Acquisition Considerations
- VI. Comparisons
- VII. Project Team Member Roles & Responsibilities
- VIII. Location, Location, Location
- IX. Common Pitfalls and Managing Business Risk
- X. Next Steps

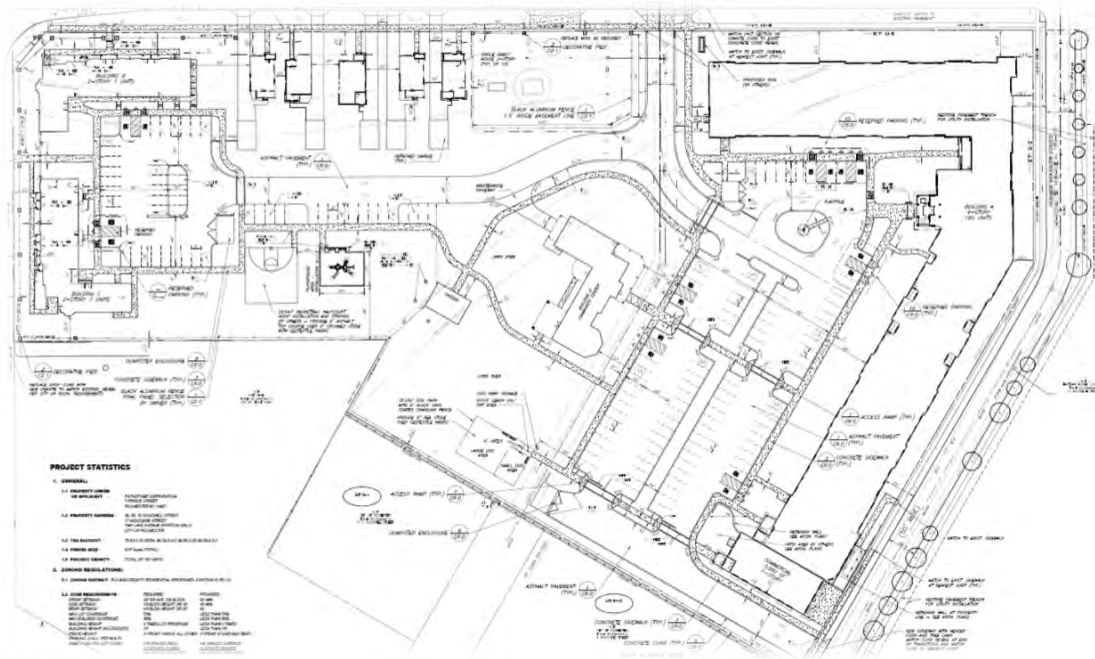


Introductions





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**PRELIMINARY/FINAL SITE PLANS
FOR
EASTMAN RESERVE
PATHSTONE CORPORATION**

JOB NO. 100
SCALE: 1"=20'
DRAWN: MPT
DESIGNED: MPT
DATE: 05/2017
REVISIONS:

DESIGNED BY:
 ROBERT P. SPINGLER
DRAWING TITLE:

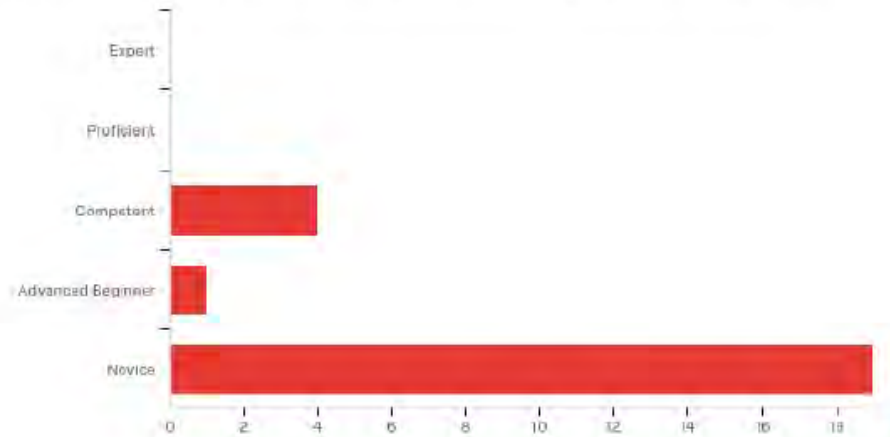


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- Quick Early Career Highlights
 - 8 years in housing and community development, last 4 specifically in real estate development
 - 345+ units and secured \$78,392,674+ in capital funds
 - Responsible for organization green designation
- Accreditations
 - LEED ® Green Associate™
 - Land Use Decision Making Professional Certificate
 - Community Economic Development Professional Certificate
 - Funding and Finance Professional Certificate
 - University of Rochester MBA
 - Alfred University B.S. in Business Administration
 - Alfred University B.A. in Communications
- Governance & Civic Engagement
 - RocCity Coalition – Housing Action Team co-leader & Advisory Committee Member
 - Corn Hill Neighbors Association – Elected member of the Board of Directors, liaison to the Investment Management Committee and vice-chair of the Revolving Loan Fund Committee
 - Rochester Aardvarks Men’s Rugby – Elected club treasurer, responsible for achieving 501(c)3 tax status and financial set up

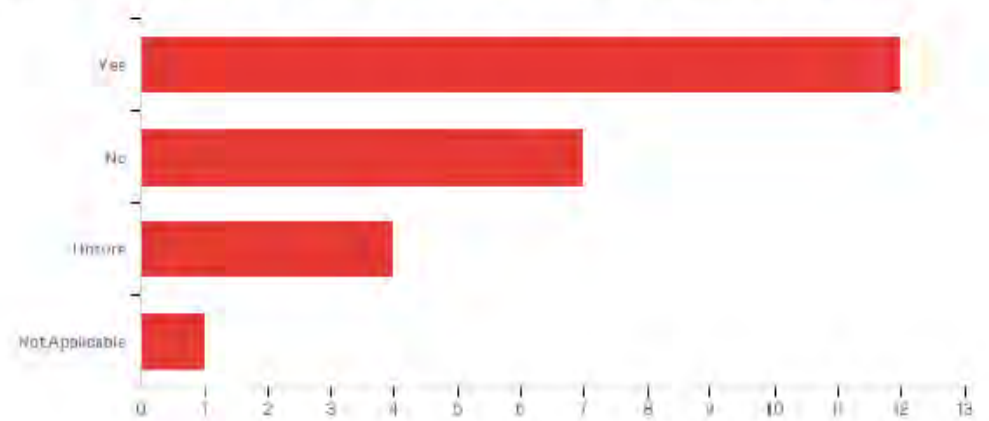


Q1 - Please rank your understanding of commercial property management.



#	Answer	%	Count
1	Expert	0.00%	0
2	Proficient	0.00%	0
3	Competent	16.67%	4
4	Advanced Beginner	4.17%	1
5	Novice	79.17%	19
	Total	100%	24

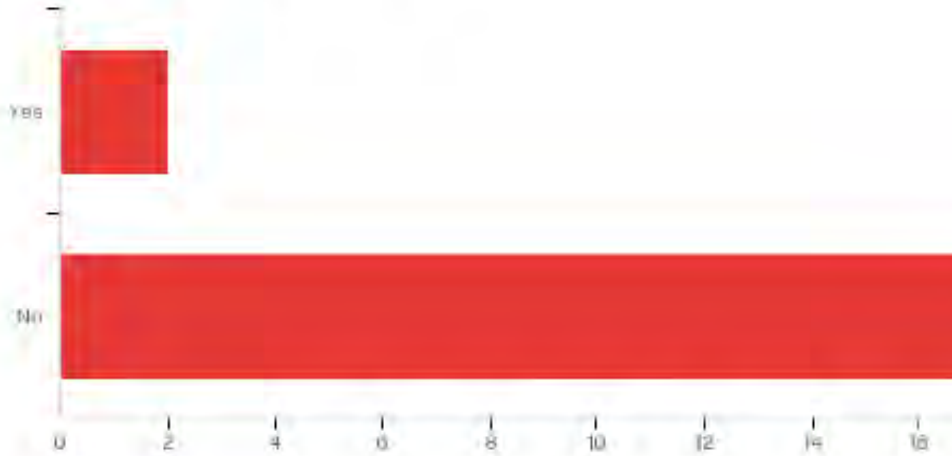
Q5 - Are you considering acquiring new space (building, adaptive reuse, rehab)?



#	Answer	%	Count
1	Yes	50.00%	12
2	No	29.17%	7
3	Unsure	16.67%	4
4	Not Applicable	4.17%	1
	Total	100%	24

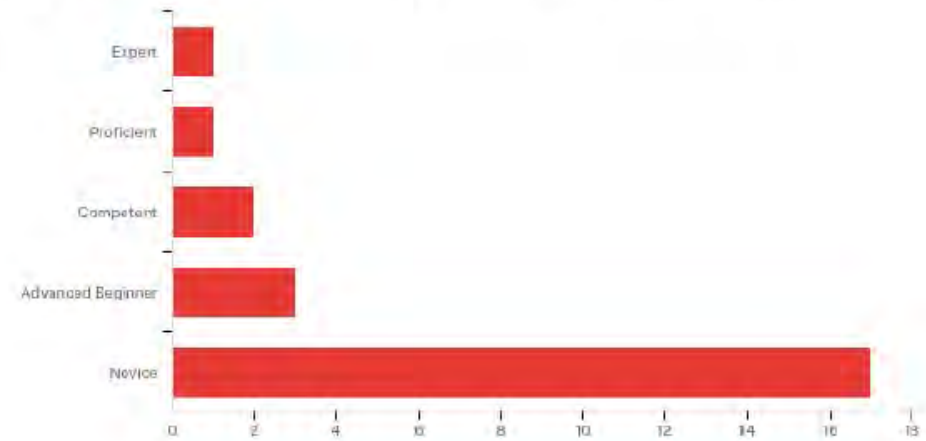


Q10 - Do you have an architect?



#	Answer	%	Count
1	Yes	9.52%	2
2	No	90.48%	19
	Total	100%	21

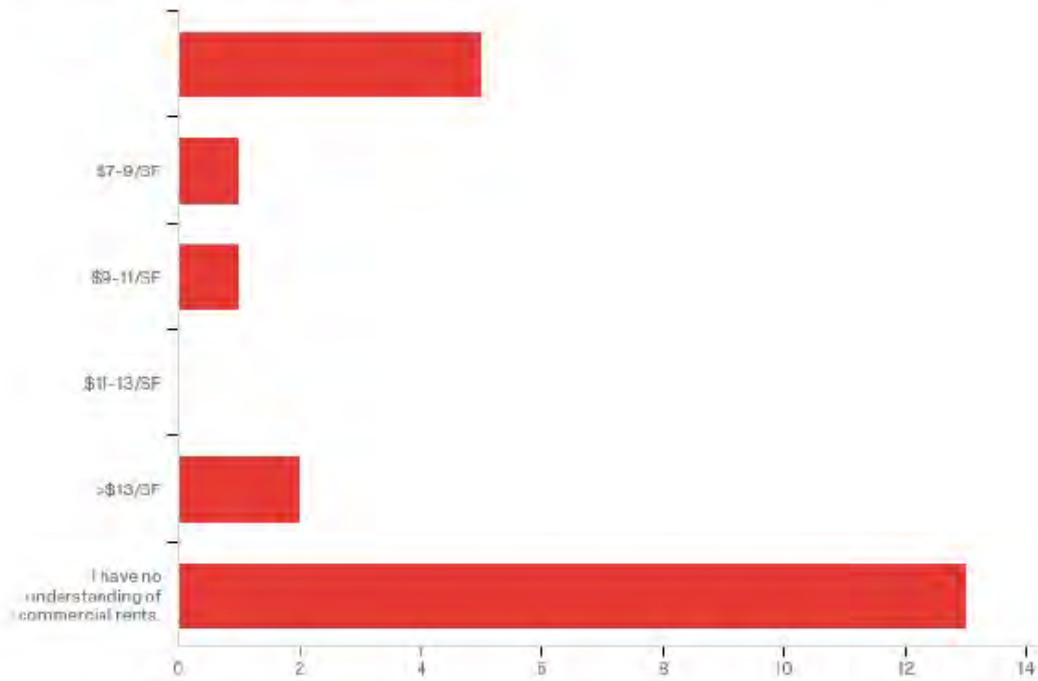
Q15 - Please rank your understanding of zoning laws and permitted uses.



#	Answer	%	Count
1	Expert	4.17%	1
2	Proficient	4.17%	1
3	Competent	8.33%	2
4	Advanced Beginner	12.50%	3
5	Novice	70.83%	17
	Total	100%	24



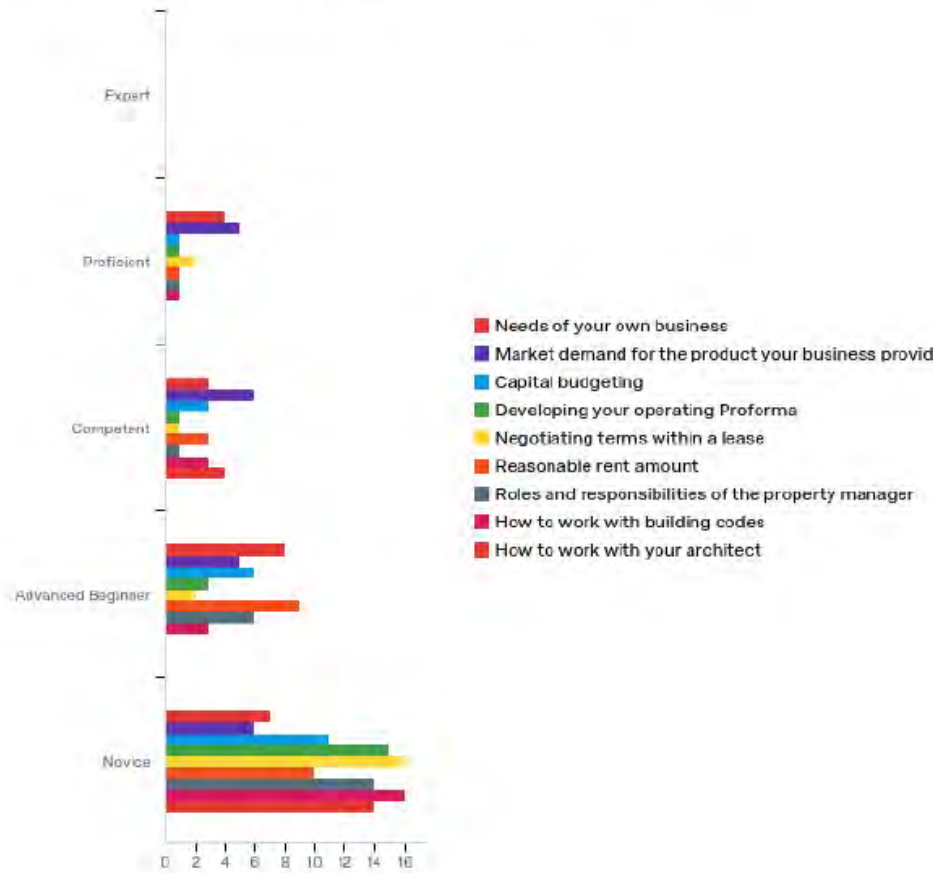
Q12 - Assuming your business rents space and based on your understanding of market rents, what cost range is acceptable to you?



#	Answer	%	Count
1		22.73%	5
2	\$7-9/SF	4.55%	1
3	\$9-11/SF	4.55%	1
4	\$11-13/SF	0.00%	0
5	>\$13/SF	9.09%	2
6	I have no understanding of commercial rents.	59.09%	13
	Total	100%	22



Q17 - Please rank your level of understanding of the following:

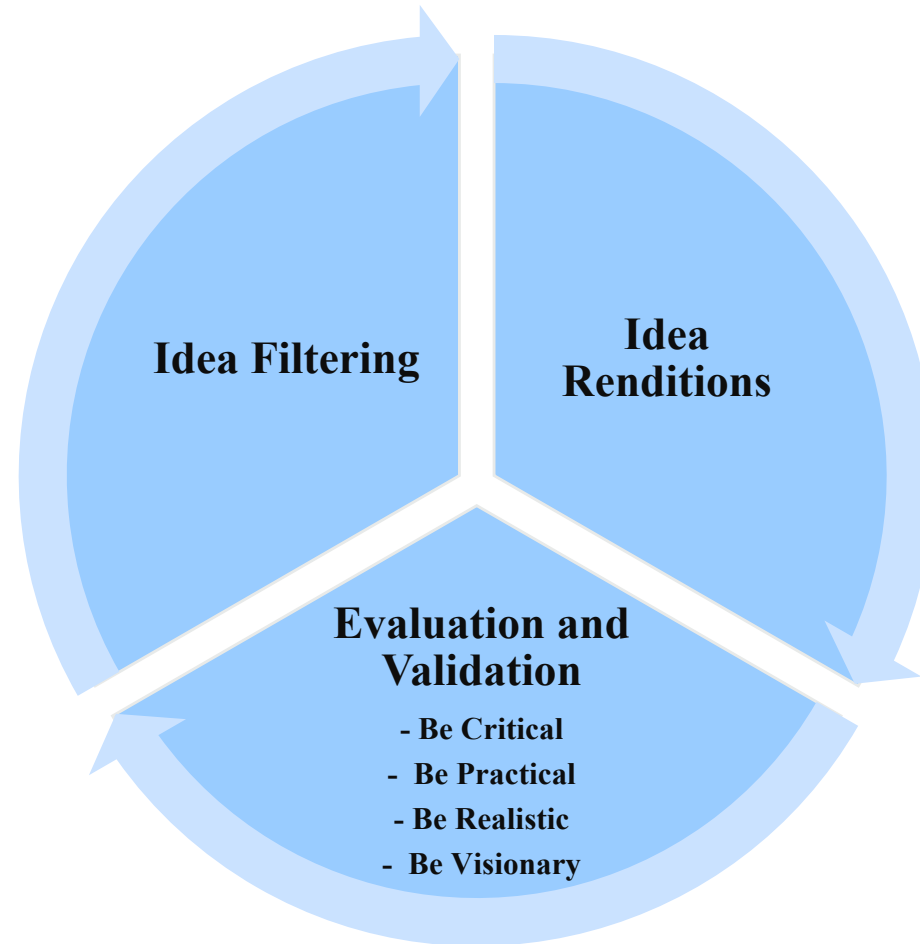


5	Negotiating terms within a lease	0.00%	0	9.52%	2	4.76%	1	9.52%	2	76.19%	16	21
6	Reasonable rent amount	0.00%	0	4.35%	1	13.04%	3	39.13%	9	43.48%	10	23
7	Roles and responsibilities of the property manager	0.00%	0	4.55%	1	4.55%	1	27.27%	6	63.64%	14	22
8	How to work with building codes	0.00%	0	4.35%	1	13.04%	3	13.04%	3	69.57%	16	23
9	How to work with your architect	0.00%	0	0.00%	0	22.22%	4	0.00%	0	77.78%	14	18

#	Question	Expert	Proficient	Competent	Advanced Beginner	Novice	Total					
1	Needs of your own business	0.00%	0	18.18%	4	13.64%	3	36.36%	8	31.82%	7	22
2	Market demand for the product your business provides	0.00%	0	22.73%	5	27.27%	6	22.73%	5	27.27%	6	22
3	Capital budgeting	0.00%	0	4.76%	1	14.29%	3	28.57%	6	52.38%	11	21
4	Developing your operating Proforma	0.00%	0	5.00%	1	5.00%	1	15.00%	3	75.00%	15	20



Concept Check



Lease or Buy Strategy

- Clearly Defined Programmatic Concept and Goals of Business Venture
 - What is your product and what major assumptions you are making to scale output?
 - How much space do you need today? How about in 5-10 years?
 - How much does location matter and does the space, or site, fit within your financial plans?
- Financial Trinity
 - What are your *sources* of equity funds?
 - What are your *sources* of debt funds?
 - What are your *sources* of operating funds?



Commercial Lease Considerations

- Typical Lease Terms
- Square Footage and Market Rents
- Space Availability in the Market Your Product Serves
- Lease Types
- Process
- Responsibility for Capital Expenditures
- Project Team Members



Lease Terms

- Use and Exclusivity
- Term and Rent
- Common Area Maintenance (“CAM” charges)
- Insurance and Liability
- Security Deposit
- Possession
- Lease Commencement
- Agent
- Landlord’s Work
- Tenant’s Work
- Signage
- Utilities
- Lease Option
- Parking
- Assignability
- “Vanilla Shell”
- Personal Guarantee
- Early Termination / Default



Lease Rates

COMMERCIAL RENTALS						
Comp.	Address	Type of Space	Lease Date	Sq.Ft.	Annual Rent	Tenant Pays
1	661 South Ave	Office/Retail	Current	1,800 - 3,200	\$13 - \$15	Electric (heat)
Comments: Mixed-use commercial building. Tenants include a mix of office and retail uses. Tenants were provided with a shell finish. Total of 7,700 sq.ft. of commercial space along the lower level. Hickory and South Place.						
2	312 State Street	Office	Current	1,230	\$10.73	Electric
Comments: Mixed-use commercial and residential building. Real Estate office. Tenant was provided with a shell finish. Mills at High Falls. Former dance studio was rented for similar rate is now available.						
3	Confidential - East Ave	Restaurant/Retail	Current	4,338	\$19.57	Utilities and
				2,797	\$14	pro-rated taxes
Comments: Mixed-use commercial and residential building. Tenants were provided with a shell finish. Building renovated in 1999.						
4	165 N Water Street	Office	Current/Asking	2,251	\$10	Share of expense &
				7,406	\$12	Utilities
				2,130	\$12	
Comments: Mixed-use commercial and residential building. Asking rents for vacant space. Existing office space or renovated to tenants needs. Reflects asking price for shell space. Water Street Commons.						
5	439 Monroe Ave	Office/Retail	Current/Asking	1,500 - 4,000	\$12	Share of expenses
Comments: Mixed-use commercial building. Tenants include a mix of office and retail uses. Tenants are provided with a shell finish.						





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Lease Rates

Analysis of Commercial Rents

The developer is planning a commercial space totaling approximately 3,138 sf of leasable area intended for a local business. This could include office or retail uses. We have provided an *analysis of the community service space rent* that impact the subject development. We include a summary of asking rent levels along with photographs of the comparable properties based on research undertaken using various internet searches and discussion with local real estate brokers in the area.

There is availability of retail and office space in the area, and the following rent options are available:

Rental Comparables – Commercial Space January 2018						
	Name, Address	Property Type	Tenant Type	Area (sf)	Date	Monthly Rent
1)	1425 Mt Read Blvd Rochester, NY	Multi-Tenant	Office	8,874	Current	\$12-\$13
	Comments: Multi-tenant office building. Modified gross terms, with increases over base required. Parking included.					
2)	HH Warner Lofts 72-82 St Paul Rochester, NY	Mixed-Use	Office	3,551	2011-2017	\$9.50
	Comments: Triple net terms. Ground floor office, with some parking included.					
3)	WedgePointe 390 South Ave Rochester, NY	Mixed-Use	Office/Retail	1,375	Current, 3 yrs	\$8.50- \$9.00
			Office	967	Current, 3 yrs	\$8.50- \$9.00
	Comments: Community service and retail space. Parking provided. Tenant pays utilities.					
4)	588 Stone Road Rochester, NY	Mixed-Use	Office	4,500	Current	\$11.00
	Comments: Classroom space. Surface parking included. Plus utilities.					

The summary of rents indicates an unadjusted range that extends from around \$8.50 to over \$13 per sq.ft. for average/good quality office space in ground floor or similar locations. In most cases the tenants are responsible for individual utilities, plus increases to CAM charges over the base year. The subject rent is projected at \$11 per sq.ft. plus utilities and will be well supported.





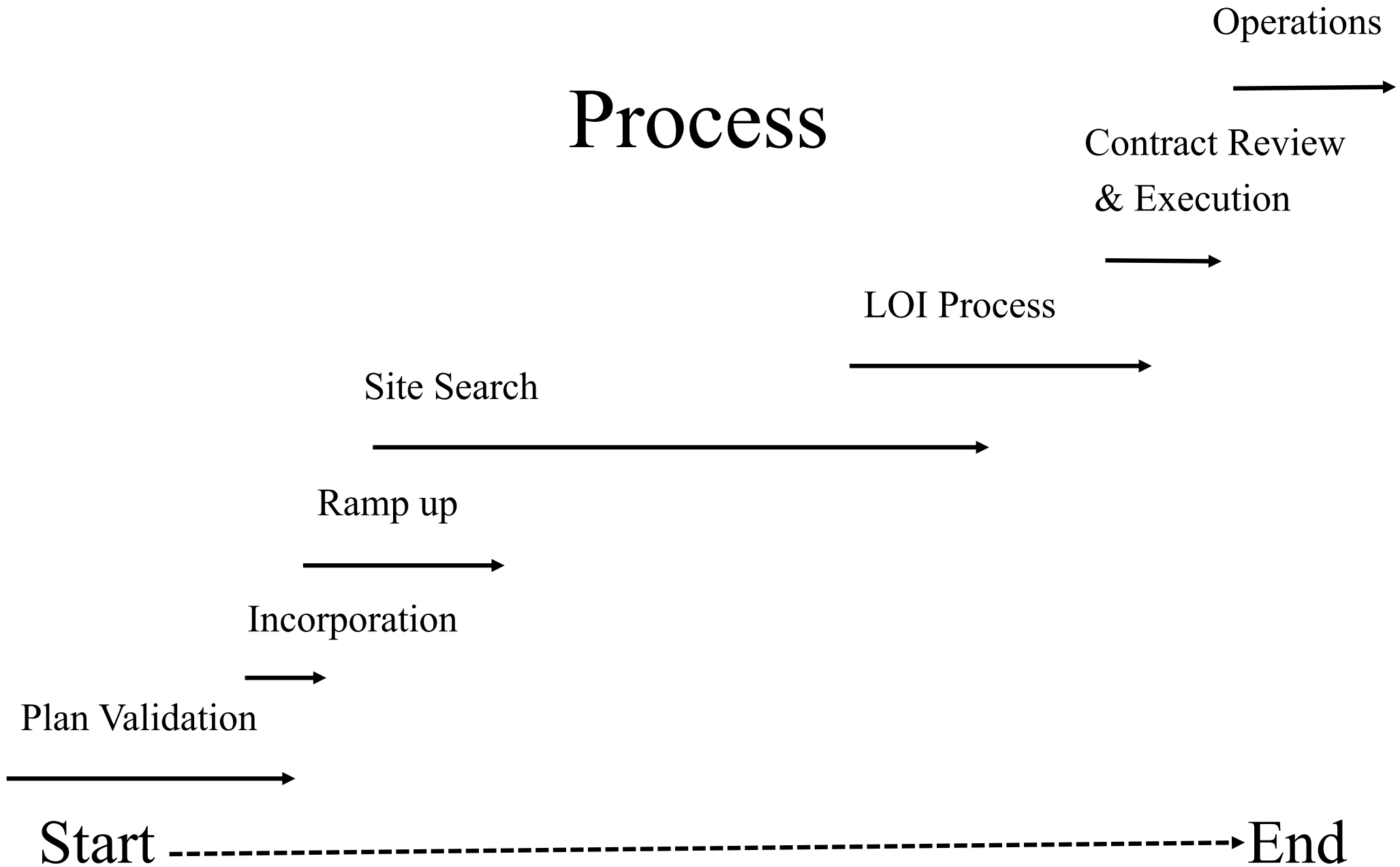
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Lease Types

- **Single Net Lease** — some or all costs (taxes, insurance, maintenance)
- **Double Net Lease** — Taxes and Insurance
- **Triple Net Lease** — Taxes, Insurance and Maintenance
- **Absolute Triple Net Lease**
- **Ground Lease**



Process



Acquisition Considerations

- Market Characteristics
- Site Characteristics
- Due Diligence
 - Survey
 - Soils – pits, borings, GPR
 - Environmental
 - Title
 - Traffic
 - Physical Needs Assessment
 - Code Analysis
 - Flood Location
 - Construction Estimate
 - Community Input
 - Market Study
 - Appraisal
 - Utility Review
 - Archaeological
 - Seismic
- Economic Considerations
 - Capital Sources
 - Capital Uses
 - EBITA, NOI, Cash Flow, NPV, ROI, Cash on Cash, etc.

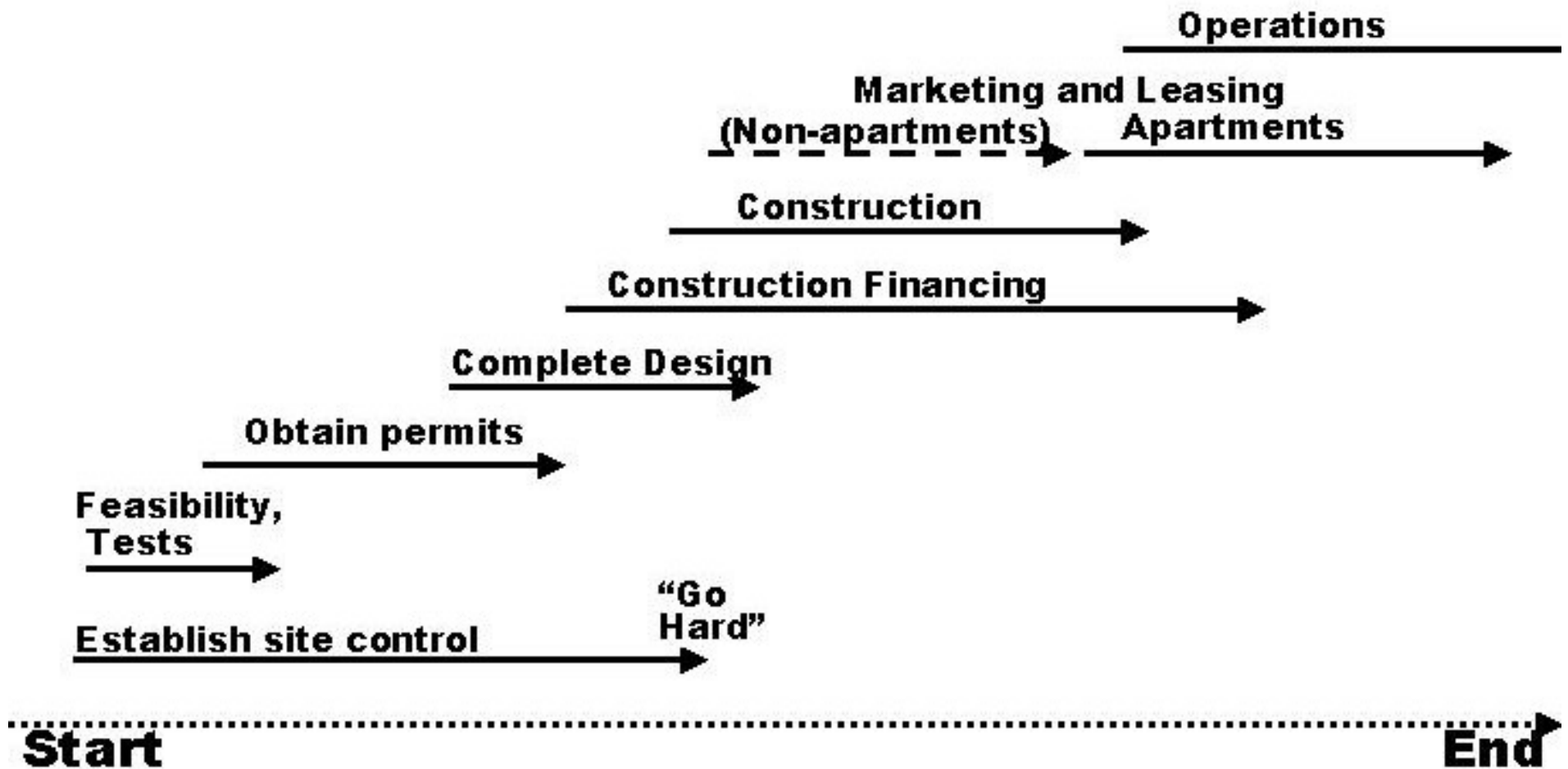


Understanding the Rules and How to Apply Them

- Existing Building Code of New York State
- Local Zoning codes and ordinances – Check These!!!! Make some calls.
- Fire Code of New York State
- Accessibility: ADA, State and local accessibility codes
- Energy Conservation Construction Code of New York State?
- Design requirements specific to your business?
- SHPO/NPS: The Secretary of the Interior's Standards for the Treatment of Historic?
- Properties/Preservation Briefs. Historic tax credits?
- Financial incentive energy programs: NYSERDA, EPA Energy Star?
- LEED Certification?



Process



Let's Compare

Lease		Acquire / Buy	
<ol style="list-style-type: none"> How much space can you afford? How does the rent fit within your model? Are the right locations available? 	<ol style="list-style-type: none"> How much space do you need? How much parking do you need? Do you have the right team in place? Is the space / site in the right location? 	<ol style="list-style-type: none"> Are you or is your business credit worthy? Do you have the capital in place? Do you have enough reserve money for guarantees? 	
Pro	Con	Pro	Con
<ol style="list-style-type: none"> Location Working capital Comparative advantage Capital cash outlay 	<ol style="list-style-type: none"> Constrained to lease terms such as rent Lack of control of fixed and variable costs No equity build up Operating costs 	<ol style="list-style-type: none"> Equity position over time – debt pay down and value appreciation Control of fixed costs Ability to co-share or rent additional space Tax benefits 	<ol style="list-style-type: none"> Liquidity Capital availability as a barrier Managing and replacement costs Risk exposure – liability, value depreciation, balloon payment, etc.
Cash Flow			



Capital Costs

Lease	Both	Buy
<ol style="list-style-type: none">1. Tenant's Work – finishes, duct, signage, etc.2. Deposit	<ol style="list-style-type: none">1. Broker2. Legal3. Architect	<ol style="list-style-type: none">1. \$\$\$ Acquisition – transaction fees, prepaid and escrows2. \$\$ Soft costs – a&e, title, survey, accounting, legal, interest, etc.*3. \$\$-\$\$\$\$ Hard costs – construction trades, contingency, etc.*4. \$ Reserves – WIC, RR, OR

**See Excel Example*



Operating Expenses

Lease	Both	Buy*
<ol style="list-style-type: none"> 1. Rent 2. Taxes <i>and/or</i> Property Insurance <i>and/or</i> Maintenance** 	<ol style="list-style-type: none"> 1. Professional Fees 2. Administrative 3. Business Insurance 	<ol style="list-style-type: none"> 1. Administrative 2. Full Utilities 3. Internal and External Repairs 4. Full Maintenance 5. Building Reserves 6. PITI 7. Investor

* See excel example

**type of lease



(Some) Project Team Members

- Roles and Responsibilities of:
 - Architect & Engineer
 - Attorneys
 - Property Manager
 - Real Estate Broker



Location Considerations

- Zoning
- Neighbors
- Location quotient
- Multimodal transportation alternatives
- Employee
- Crime
- School performance



Common Pitfalls and Managing Business Risk

- Aggressive v.s. conservative gauge of major assumptions
 - Market demand and reasonable assessment of it
 - Market supply and reasonable assessment of competition
 - Soft and hard cost estimations
- Sticking to the business plan
- Legal structure and risk
- Leadership – centralized or decentralized?
- Location
- Value proposition and inconsistency of it
- Staffing and client service



Next Steps

- Complete business plan validation process
- Identify sites / locations
- Select lease or buy strategy
- Practice!
- Letter('s) of Intent
- Execute contract
- Implement your plan

