

Proactive Profitability

These 10 ideas can help landlords save money.

by Jerry A. Nelson, Esq.

The bad news is that investment property costs increased when taxes increased in January. Interest rates have also increased. The good news is that savvy landlords can take proactive measures to improve the bottom line now and in the upcoming new year. With the help of experienced legal counsel, landlords and investment property owners can consider the following suggestions for increasing their properties' profitability.

10 Tips to More Income

1. Refinance. As predicted, interest rates have climbed but still remain historically low, so now is the time to take advantage of low rates, available financing, and rising property values before the window of opportunity closes. Before you decide to refinance, compare the expected savings and income with the expected expenses and risks, and determine if and when the benefits outweigh the costs. The costs can include appraisal, inspection, legal, title, and other fees, and any penalties for early payment of the existing loan. The risks can include restrictions and guaranties in loan documents. The benefits can include lowering payments, accessing needed cash, avoiding balloon payments, reducing or extending the loan term, reducing the

amount of debt, improving loan terms, and increasing income by using loan proceeds to make improvements. Review your properties to minimize your costs and risks and maximize your benefits.

2. Reduce Taxes. Have you considered a real estate tax appeal before the deadline? Even landlords who lease on a triple-net basis should consider filing timely tax appeals to lower their property taxes. In this economy, tenants are extremely sensitive to additional costs; this move avoids losing tenants because the taxes being passed through are too high, helps existing tenants survive by saving money, and attracts new tenants who are comparison shopping among potential sites. Another way to obtain tax benefits is through 1031 exchanges.

3. Plan. Consult with counsel to discuss and update your plans and options, including estate planning, exit strategies, and business succession planning. An experienced trusts and estates lawyer can ensure that the maximum amount of your money stays where you want it, instead of going to Uncle Sam.

4. Reduce Responsibilities. Update all your documents and procedures to reduce your responsibilities. For example, you can clearly require tenants to perform and pay for all obligations, including, without limitation, all construction, compliance, utilities, maintenance, repairs and replacements. And you can reduce responsibilities by improving procedures, from installing energy efficient lighting and equipment, to improving negotiations and vendors.



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5. Improve Insurance. In the wake of Superstorm Sandy, the Colorado floods, and other disasters both natural and human, it is important to review your coverage and your tenants' coverage to know and understand what risks your property is protected from — and where exposure exists. Don't rely on certificates of insurance that may not protect you; make sure that all insurance is up-to-date, accessible, and provides adequate coverage for the most likely damage in your area.

6. Manage Risks. Review and update your compliance procedures, employee handbooks, and other documents and procedures to prevent problems. Other ways to reduce costs are by considering available dispute resolution options to improve and expedite resolutions, using estoppel certificates and releases to prevent lease problems, and using lien and claim waivers to avoid construction claims.

7. Improve Properties. Have you recently

developed or remodeled your real estate to attract and retain the best tenants and increase rents? You may also be able to transform vacant spaces into new uses, add pad sites, and lease to temporary tenants. Other sources of potential income include charging for underutilized spaces, and charging other fees. And you may be able to save money by adding solar panels.

8. Increase Collections. Make sure you are collecting your unpaid debts while complying with the Fair Debt Collection Practices Act and other applicable laws. It is important to expedite collections while also ensuring that your strategies and procedures will reduce future debt collection problems. And it is essential to enforce all your bankruptcy and other rights.

9. Improve Your Deals. Do your documents maximize recovery of operating expenses and unpaid rent? You can also increase income and cut costs by improving leases and other documents. For

example, by avoiding dangerous use and building restrictions, co-tenancy clauses, termination rights, and unexpected obligations, landlords can avoid lease landmines that can kill deals, prevent operation and development, and cause lost rent and damages.

10. Get Deals Done Faster. Do your negotiations take too long? You can increase income and cut costs by expediting the negotiation and drafting of letters of intent, leases, amendments, contracts, and other documents.

These are just a few examples of how landlords can improve the bottom line now. Evaluating these questions requires careful review on an individual basis with experienced counsel.

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