

THE QUICK FIX



What upgrades can you quickly and easily do to enhance your space?

The state of the local economy doesn't make a difference in regard to quick-fix enhancements of a vacant property. Commercial real estate professionals in hot markets, as well as dormant, recommend landlords make an investment in their properties if they want a more receptive response from potential tenants. Depending on location, that investment should be something as simple as painting and re-landscaping, or as complicated as a lobby build-out and new bathrooms.

BY STEVE BERGSMAN

The port city of Charleston, S.C., has been enjoying an economic renaissance with a lot of new manufacturing companies moving into the metro area. While there has been new construction, there is still not enough space for all the new jobs, so companies are looking at the vast amount of older, vacant product for potential new plants. Although a lot of the industrial space are decades-old, former distribution facilities, some are getting rented, and some are not.

The building owners who are “winning,” says **Simons Johnson, SIOR, MCR, CCIM**, a principal with Colliers International in Charleston, are investing in their buildings to make them more attractive and flexible, but “the guys that are sitting there and hoping that their building will be leased because the market is getting tighter are still sitting with vacant buildings.”

Johnson likes to tell the tale of an older, orphaned building surrounded by shiny, nice new buildings.

“It just sticks out because it is sitting there without any attention. If someone would spend a minimal amount of money to make it attractive it would stand a greater chance of being leased,” Johnson explains. “It’s a great building; it’s just that people discredit it just by the fact that it looks unappealing when they drive by.”

He adds, if the owner just did a few basic tasks, paint the interior and exterior, fix the asphalt and clean the yard, the intrinsic value of the property would increase.”

In the broker business, the traditional debate between you and your client is often what needs to be done to make a vacant building quicker to lease and whether the owner will make that investment.

An informal survey of brokers from around the country reports brokers universally recommend a quick-fix enhancement of space to set the office or industrial building apart from all others on the market. This strategy works and is recommended no matter the local economy, whether the market is like Houston or down like Detroit.

“When potential tenants go on tour, they see a lot of buildings and many times all the buildings feel the same by the end,” observes **Scott Perkins, SIOR, CCIM**, the managing director of corporate services for NAI James E. Hanson in Hackensack, N.J. “However, if you have one building that seems incredibly clean, well-lit, and sticks out on the tour, that is going to be the space that leases.”

Perkins concedes there are landlords that don’t want to put a dollar into their buildings until there is a tenant on the hook.

“The properties belonging to those landlords tend to sit a little longer,” he says.

He gives this example. Perkins represented an older industrial building in Parsippany, N.Y., where the landlord epoxied the floors, painted the interior walls white, and modernized the lighting to T5.

Before the work there was action at the property, but not a lot in the way of offers. Once the work was done, everything changed. There was even a bidding war, Perkins says. “I hadn’t seen that sort of thing in years, and it had to do with the condition of the space.”

THE QUICK FIXES

Let’s assume your client accepts your advice and decides to do some quick fixes to make his building stand-out in a competitive market. What do you recommend?

Most brokers suggest updating the following basics:

- ✓ Floors: For industrial space, clean, repair, and epoxy the floors. Change the carpeting of offices and/or lobbies.
- ✓ Walls: Repaint. In reused industrial space, go with lighter colors or even a reflective white.
- ✓ Parking: Power wash, repair if necessary and re-stripe.
- ✓ Landscaping: Clean up and clear out.
- ✓ Interior: Keep the inside clean and free of dead-bugs and cobwebs.
- ✓ Other suggestions include changing the industrial lighting to T5 or T8 and modernize the bathrooms.

Even if the building owner is strapped for cash, Perkins suggests getting rid of everything the previous tenant has left behind, as it just looks “unfinished,” and **Kurt Kunst, SIOR, CCIM**, a broker and partner at NAI Wisinski of West Michigan in Grand Rapids, recommends power cord tie-ups.

“A lot of times these industrial buildings have power drops, bus-bars or piping that hang down,” he says. “You don’t have to get rid of them, but coil them up and tie them to the ceiling; it looks cleaner and maximizes the clear height of the building.”

Kunst, who works with a “punch list” for building owners, stresses addressing the exterior of the building, particularly the foilage. He’s not the only broker to recommend paying particular attention to landscaping. On the West Coast, **Patrick O’Healy, SIOR**, a principal with O’Healy Commercial Real Estate Services, is also a strong advocate of landscape renewal to make a building attractive for transactions.

The reasoning is as obvious as the forlorn building Johnson refers to Charleston. First impressions are extremely important and the first thing any potential tenant sees is the outside of a building.

“We like to think our clients make cognitive decisions about space, but the reality is our clients make emotional decisions supported by cognitive criteria,” says O’Healy. “In other words, the economic analysis has to work, but the building has to feel right as well.”

SEEING THROUGH THE TREES

O’Healy is a believer in doing things that engender a positive emotional response such as a client driving up to an attractive, welcoming building. “Basically, if you have two equal properties and one gives you warm fuzzies and the other one doesn’t, which one do you think you will you choose? In commercial real estate, warm fuzzies are engendered by build-outs or improvements.”

When a building is newly constructed, the landscaping, often well-planned, is like a picture frame. From far back, the landscaping should frame the building, or as O’Healy notes, “the softscape frames the hardness of the building and gives an overall positive aesthetic impression.”

The problem with older structures, he adds, “is that often you have trees way past the height of the building and bushes that are overgrown. At what point are you looking more at the frame and less at the building?”

One aspect of a property, especially with industrial buildings, is the neglect of the landscaping, observes Kunst. “We’ll get a building that is 15 years old and the hedge that was supposed to be a foot-and-a-half is now six-feet because no one has trimmed it. The building disappears behind the bushes and now the structure doesn’t look so tall and, in fact, you can easily drive by it and not even notice it

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was there.” As far as re-landscaping is concerned, Kunst advocates less is more.

“I represented a building that was 15-years-old and the property around it had a bunch of shrubs that grew up at the corner,” he recalls. “The landscaping was six feet tall and should have been two. The owner didn’t want to spend a lot of money on landscaping, so we advised him to rip out everything and just put mulch down – that the building would look better, cleaner and taller.”

FUNDING FOR QUICK FIXES

How much should be spent to quick-fix a building? There is no set formula; mostly it depends on the building, market and, most importantly, expected rent.

“There is no quick rule of thumb, because it depends on where you have to start from” says **Steve Kapp, SIOR**, a senior vice president at Cornish & Carey Commercial in Hayward, Calif. “I just got done with a 22,000-square-foot space in Hayward that had the same tenant, a truck repair company, for the last 20 years. That was 20-years of grit and grime that had to be hand washed out of everything. It took over a month just for that. Almost nothing was in code in terms of restrooms and offices. Those were significant costs.”

The thing to keep in mind, Kapp adds, “is the amount of money you are spending has to correlate with your anticipated rental rate. In addition, you are not going to outperform the market just because you have made the space market-ready. You are however, going to lease the space quicker and more than likely to a higher quality tenant.

For example, earlier this year Kapp represented some buildings in nearby Fremont. It was third-generation space with old labs and non-functional clean rooms all in a chopped-up interior. “The owner came in and did all the things we recommend from, power washing the exterior to gutting the entire interior, to building out a new front office and creating new restrooms,” Kapp notes. “We did all this in 25,000-square-feet and were able to land a significant multi-year lease with a medical device company.”

How do you quantify expense when you have a \$700,000 industrial building for sale? Kunst says he represented such a building where all the exterior metal had been oxidized. The owner—on recommendation—spent \$15,000 to paint, including offsetting colors for the trim. “It changed the visual of the building overnight,” Kunst says, “and it sold.”

Travis Land, SIOR, a principal with NAI Houston, works in a city with big distribution buildings and costly leases. He has another perspective on expenses.

“Normally, you are talking about investing \$50,000 on the front,” he says, “You would have had to pay the money anyway for improvements once you signed the tenant. You might as well do it ahead of time and be ready for a tenant.”

In Houston, one of the hottest industrial markets in the country, and where there is a 5 percent or less vacancy factor, time is indeed of the essence.

“We have a lot of speculative construction going on right now, so if a new building's property isn't getting the activity it needs in a market that is moving so quickly, I recommend going ahead and pre-finishing some of the project,” says Land.

A quick-fix enhancement works very well in the Houston market,” Land continues, “because everybody needs stuff yesterday. They want a nice new product, but they don't want to wait two to three months to move in somewhere because their business is moving so fast. They don't want to wait until the lease negotiation is done. They'd rather move in right away.”

Land suggests a 5 percent to 10 percent build-out with a conservative color scheme. In new construction, he recommends adding some open cube areas.

“A lot of the big real estate investment trusts do this,” he says. “When there is older space turning over, the REITs will replace the carpeting and paint the interior warehouse walls to freshen up the look. What it does is give you a leg-up on your competition, plus it signals potential tenants that the landlord is willing to invest in the building to keep it in good shape.

Outside of Charlotte, N.C., in an area called Ballentyne, there were more office and industrial buildings constructed than anywhere else in the country, outside of Manhattan, and a lot of that space is going over to call centers.

As **John Culbertson, SIOR, CRE, CCIM**, managing partner with Cardinal Partners in Charlotte, notes, “the broker is going to have to be very familiar with the target users. For call centers, there are fewer private offices and larger floor plates; brokers need to show how older buildings can be retrofitted to reflect the work style of the tenant.”

Call centers inhabit much more employees so mechanical systems need to be enhanced, plumbing systems (including bathrooms) have to be increased, and parking spaces added. The latter of which can be a problem since a reused property may have to be rezoned or permitted to reduce setbacks so as to increase the parking ratio. Since the process is not expensive, but time consuming, Culbertson recommends getting the process underway instead of waiting for a tenant to sign a lease.

“All these changes will be done anyway, so landlords might as well go ahead and do it ahead of time,” says Culbertson. “Tenants have very limited abilities to understand the kinds of improvements that will be implemented in a quick visit. It's good to have the space prepared as much as possible for the targeted tenant.”

In addition, the market for call centers is very competitive, so

» » "IF THE OWNER JUST DID A FEW BASICS TASKS; PAINT THE INTERIOR AND EXTERIOR, FIX THE ASPHALT AND CLEAN THE YARD, THE INTRINSIC VALUE OF THE PROPERTY WOULD INCREASE."

if a landlord doesn't enhance his building, it gets overlooked. “When a tenant has three or four options and a couple of other places have already enhanced, you are at a disadvantage if you haven't,” says Culbertson. As all brokers understand, but landlords sometimes need to be reminded, the biggest enemy to a commercial landlord is vacancy.

An empty building is money lost, says O'Healy. “Although vacancy is the major problem in commercial real estate, many landlords aren't willing to bite the bullet and do what they need to do to make their buildings competitive. They wait too long and after they have lost a tremendous amount of income, they then are dialing 9-1-1 and saying to you, 'what can we do?'”

The answer is always, invest in enhancing your space – a tenant will come. 📞

ABOUT THE AUTHOR



STEVE BERGSMAN is a nationally recognized financial and real estate writer. For more than twenty-five years, he has contributed to a wide range of magazines, newspapers and wire services, including the New York Times, the Wall Street Journal Sunday, Global Finance, Executive Decision, and Chief Executive.

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