

Things will improve sooner...for the proactive

written by Eric Simonds, CCIM



There is no shortage of negative economic news these days. Whether it's the 600,000 jobs lost nationally per month, taxpayer-funded bailouts, or major U.S. firms declaring bankruptcy; the story is similar everywhere you go. While these headlines are certainly newsworthy and extremely important, I'm concerned there is too much negativity surrounding us. It is easy to get lost unless you are proactive.

For all the pessimistic information provided, there are few viable solutions being offered. I'm not looking to correct the troubled national economy, but what about the local economy? I'm able to help by using my expertise and offer a possible solution to local firms who are experiencing cash flow issues. Are there any options for firms who own the commercial building in which their company operates? What options do these financially-challenged firms have? Should they just weather the storm and hope their boats don't sink?

I'd like to propose a viable solution:

- **The goal:** To free up working capital so the firm can continue to operate amid declining sales and increasing expenses.
- **The solution:** A sale-leaseback transaction.
- **How it works:** In simple terms, the firm sells the building it currently owns and leases it back from the buyer. Capital that was tied up in the property is now in a liquid form. This will be used as the firm sees fit. However, the firm retains the right of use to the property and the asset is turned into cash. The lease terms are then structured so it is both marketable to potential investors (buyers), as well as agreeable to the firm and its business model.
- **How does Conley Associates add value?** Picture this: After meeting with your comptroller, you find out there are cash flow issues and money is needed to invest in new capital equipment, so you walk down the hall to the real estate department. That's Conley Associates...we are a real estate consulting firm. Conley Associates can analyze the current situation from a real estate perspective, identify potential cash flows, and outline market terms that would be the basis of a lease document. What is market rent in this area? Should the lease rent be valued on a gross or NNN basis? Perhaps a hybrid of the two? How many years should the lease term be? Does your firm forecast growth or reduction in the upcoming years that will affect the amount of space needed? These are all questions your real estate department, Conley Associates, can evaluate and develop solutions for.
- **What are the other advantages of a sale-leaseback?**

SELLER'S VIEW

1. Convert Non-Liquid Equity into Cash
 - Seller still retains control & utilization of the property
2. Alternative to Conventional Financing
3. Possibility of Better Financing, which can result in Lower Lease Payments
4. Balance Sheet
 - Fixed asset (real estate) is replaced with a current asset (cash proceeds from sale)
 - Operating lease is usually not a liability on Balance Sheet
 - a. Results in an increase in the Seller's ratio of current assets to current liabilities - which

- often serves as an indicator of a borrower's ability to service short term debt obligations
- How will the lease be booked? "Capital Lease" vs. "Operating Lease"
5. Benefit of Depreciating Land through Lease Payments
 6. Potentially relieved of Property Management duties
- (Note: We would work with your accountant to tailor this strategy to your particular circumstances)

BUYER'S VIEW

1. Predictable & Secure Return Rate
 - Long term lease
2. Ownership of the Reversion
3. Less Risk
 - "Built-in tenant"
4. Potential for Equity Growth
 - Appreciation in Value
5. Hedge Against Inflation through Lease Terms
6. Tax Benefits (Example: Cost Recovery)

Things will get better! Until then, I'd like to help you minimize the effects of a tattered economy and offer you solutions; to raise you and your business above the pessimism. Is a sale-leaseback right for you and your business? To find out, take a proactive approach and contact your real estate department at Conley Associates

Tara Curley Rudden

We would like to take this opportunity to welcome the newest member of our team.

Tara Curley Rudden is the newest consultant to join the team at Conley Associates. She will provide clients with tenant/buyer representation and consulting services; ultimately allowing clients to make real estate decisions that fit their business needs. Past experience and education will allow her to provide: exceptional programming studies, facility reviews, market analysis and financial analysis of the options available to her clients. All this knowledge furnishes the client with proper information to make educated decisions. Ms. Rudden will assist her clients through every step of the real estate process - establishing objectives to providing contract negotiations for their lease or purchase.

Tara transitioned into the commercial real estate sector almost five years ago, after 12 years of production and design work in the fashion industry. Her cost analysis, market research and project management skills made for a smooth transition. Over the last four years, she has closed noteworthy deals around the Capital District; as well as, earning the 2006 "Rising Star Award".

Ms. Rudden is currently completing required courses for her CCIM (Certified Commercial Investment Member) designation. A CCIM is a recognized expert in the field of commercial real estate. She is on the Leadership Committee of the Upstate NY CCIM chapter, and is also a member of NYSCAR, GCAR and CIREB. Ms. Rudden earned her Bachelors of Science degree at Syracuse University.



Upcoming Seminars

CONLEY
Forum '09

Forum '09
November 10, 2009
Wolferts Roost Country Club
Latham, NY

Conley Associates will presents...

Why should you start Lease Negotiations 12 months ahead?

Learn expert tips and strategies for negotiating your lease or lease renewal. Cash in on typically lost opportunities by applying expert strategies and creating leverage with time on your side.
7:30am-9am and again 3pm-4:30pm

&

Can my landlord really charge my business for this?

What does your landlord charge you other than rent? In this seminar, we'll give you the tools to protect your business from being overcharged for those additional expenses. We'll also demonstrate how to properly audit bills to make sure your business isn't paying for things it shouldn't be.
10am-11:30am and again 5:30pm-7pm

The Triple Play 2009 REALTOR® Convention and Trade Expo

December 8-10, 2009
Atlantic City Convention Center
Atlantic City, NJ

Tim Conley, CCIM, SIOR will present...

Turning Real Estate Knowledge into Income

Attendees will obtain in-depth knowledge of development; growing their business from traditional real estate brokerage into a vast ere of services that focus on owning and developing properties. Topics will include: analyzing investment prospects, forecasting the development cost, incomes and rates of return. Attendees will learn the benefits and liabilities of partnerships and learn various formula's for increasing their personal profit. The presentation will introduce the ancillary income venues and how to accomplish them while increasing their net worth and education. A powerpoint presentation, along with a handout book containing reusable forms and materials, will be used.

For more information on these events, visit conleyassociates.biz/media_center

PROJECT SUMMARY

Existing lease reveals an urgent situation.

A client was facing a stringent timeline, because their lease was expiring in less than one month. Conley Associates was selected to assist Adult Medicine, PC in identifying viable location options; as well as, the negotiation of a new lease. Due to the time constraints; a customized, accelerated process was created to accommodate the urgent timeline.

The first step in the expedited process required Conley Associates to review Adult Medicine's existing lease, and detect any clauses that impacted the end of the lease term. A key item discovered...the holdover right and its economic ramifications. It was found that any holdover period would command a payment of 200% of the existing rent. In other words, the **monthly rent would be double what they were currently paying!** This alarming lease clause reaffirmed the urgency of the situation. Conley Associates immediately worked with Adult Medicine to identify their requirements.

The amount of space currently being occupied was determined through space programming. This task allowed Conley to discuss how the space was being used and correct any inefficiency Adult Medicine was experiencing. Armed with the spatial requirements, building requirements and desired geographic area; Conley was able to enter the market and complete a site search. The market analysis yielded eleven location options, including their current place. After evaluating each property, Adult Medicine narrowed the options down to three properties to visit. A physical inspection of each property further narrowed the list to two finalists. Next, Conley created a competitive environment which allowed the two landlords to compete for the client's tenancy. These negotiations resulted in the true market lease rate. After receiving a proposal from each of competing landlords, Conley immediately reviewed the two offers with Adult Medicine. They were then equipped with information to pursue a transaction that would meet their desired timeline and budget. They chose to enter into lease negotiations with their current landlord.

Conley Associates addressed several issues with Adult Medicine's current leasehold space and the building it is located in. As a result of the negotiations, those items were resolved. Lease review and negotiations began promptly, so the project could be completed within the accelerated timeframe. In the end, Conley Associates was able to avoid the excessive holdover charges Adult Medicine faced in the previous lease.

The following work was completed on behalf of Adult Medicine, PC:

- Complete space programming and thorough needs analysis.
- Compile a detailed market survey of available properties.
- Outlined the business terms and budget requirements in which the Client is willing to enter into a lease.
- Perform a full financial and transactional analysis of the competing offers.
- Negotiated the business terms and real estate terms of the lease.



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Historic Tax Credits?



Timothy R. Conley
CCIM, SIOR

Recently, I read some very interesting articles in the Albany Times Union and the Capital District Business Review, outlining a new NYS Tax Incentive, which increases the ceiling on Historic Tax Credits. The articles not only reported that the current program will increase the tax write off ceiling, but also implies an increase in allowable definition of acceptable properties. Upon reading this, I picked up the telephone and called several CPAs and Real Estate Attorneys who I consider experts in the field of Real Estate Development, seeking additional information. I am interested in two factors; how will NYS assess the credit, and how can I insert the new program's benefits into our PROFORMAS in order to analyze the financial rewards? One article mentioned that a property redeveloped just last year which originally qualified for a

\$50,000 benefit, would now qualify for a one million dollar benefit. WOW, I grew up in Watervliet and I think that's a lot of money! Has NYS sent the historic properties owners, neighbors, cities, counties and taxpayers manna from heaven? The response I received from my inquiries was that nobody knew anything about the incentive. I was shocked to learn that probably the biggest redevelopment incentive to come along in two decades for downtown Central Business Districts was a secret. The CPA's and attorneys I spoke with have all agreed with me that, if what we have read in the local papers is true, this could be the redevelopment savior to our blighted historic properties that should otherwise have been removed for more vibrant performing, tax paying, occupied properties.

Let's hope when the experts decipher the incentive that it is the boost needed to jumpstart the numerous stalled redevelopment projects we have heard about for years but have not come to fruition. Mr. President, any thoughts on the Federal Tax side of things?

Tim

Conley Associates Wins National Award



Conley Associates was recently presented the *Keeping America Strong Award* by *Heartbeat of America*. *Heartbeat of America* is a nationally syndicated television show hosted by William Shatner. This award is presented to small businesses throughout the nation -only after a careful review process that investigates not only the owners but their products; as well. It must be demonstrated that what they do contributes to "Keeping America Strong".

"Heartbeat of America supports the entrepreneurs and artists of America."

Re-Think Your Lease

In times like these, smart businesses look for opportunities to grow profits.

Conley Associates understands profitability. And when revenues shrink, we have a solution. Let Conley Associates analyze your lease and right-size your office space to accommodate your current needs. When you do, you'll realize higher profits.

Re-think your lease today.
Tenants-Only.com



Did you know?

Lake Ontario is the smallest of the Great Lakes, and the only one that holds sunken warships.