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Reposition properties to create income producers

You are probably wondering why or how a private lender can write an article about repositioning commercial properties. During the heyday of the economy, Fairview, like other lenders, made a number of loans that unfortunately have gone into default/foreclosure. As a private hard-money lender, our firm decided on many occasions to hold the properties and stabilize them. We have taken many properties that were grossly neglected and turned them into income producers and, along the way, learned invaluable lessons on how to properly reposition properties to increase their income potential.

First and foremost, time is of the essence. It is critical to quickly reposition properties to stop the negative cash drain and further deterioration of the property. Dark centers or centers with very high vacancy are a liability to the owner. Insurance costs are higher and substantial cash must be utilized to keep the heat on during winter months, maintaining the exterior, etc. Dark centers can go downhill quickly. The negative stigma of a center that has been dark or underutilized is difficult to change within the market.

As a result of our experience in repositioning properties, we have learned a number of key lessons in repositioning: develop a plan, think outside the box, differentiate your property and partner with the right broker/property expert to turn a property around.

■ **Make a plan:** Before a plan can be developed to reposition a property, it is important to understand the objective for the property and the factors that led to the current underperforming situation. A plan is critical both to ensure you are moving



Glen Weinberg
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the property in the right direction and to provide a metric to evaluate progress against.

Evaluate your property objective. Is the property a long-term hold? Is the intent to hold a fire sale? Are there external

pressures (banks, investors, etc.) that need to be addressed? The answers will lead to the items below.

1. What has led to the current situation: Loss of a major tenant, bad property management, deferred maintenance, lease rates too high, awkward property (deep retail center with little frontage), challenging ingress/egress?

2. What is the typical profile of the center: Class A, Class C, etc.

3. What is your vision for the property? In the reposition, do you see yourself keeping the tenant profile similar or moving the property from a Class C to a Class A by putting in a new façade or other improvements?

■ **Think outside the box:** Drive around to all the centers in the area. Who are the typical tenants? Are any of them looking for additional space? I also find it helpful to look at similar centers in other areas to get ideas on tenants, how they laid out the plaza, etc.

Make a laundry list of all the possible tenants based on the tenant profile. For example, certain tenants go into centers with other tenants. I have seen in many of

our centers auto parts stores go into centers with dollar stores.

For example, on one retail center we own, we were able to get a tenant that has a small retail upfront with warehouse in the back to utilize the depth of an old center. We also have courted nontraditional retail tenants for retail space, such as a call center, to take an old grocery-anchored store with considerable depth along with ample parking.

Be flexible. In this economy, the only landlords getting tenants are the ones that are flexible

For our properties, our objective is to get short-term cash flow while preparing the properties for long-term appreciation. For example, we have signed a number of short-term leases (one to three years) at below-market rents in order to get a tenant in and stop the cash drain (taxes, insurance, heat, etc.). We will then transition these tenants to market rents as the economy recovers. This also will allow us to provide short-term cash flow in anticipation that future rents will be higher. The shorter-term leases also provide flexibility to continue to locate the right tenants since the owner is not locked in for long periods of time.

■ **Differentiate your property:** It is imperative to set your property apart from other properties.

On a number of properties, we have advertised teaser rates in order to get a tenant. For example, if the rest of the market is renting for \$3 per sf, we might advertise at \$1 per sf for the first six months and over a three- or four-year period, we increase to market rents.

Also, we have offered free rent to entice tenants. For example, so many months free for signing a lease by a certain date.

We have allowed tenants do their own build-out in exchange for reduced rents, which helps stop the cash drain and get tenants in the property.

Sell the amenities that also might help tenants. For example, is there excess land available that a tenant could store company trucks? In one of our warehouses, we graded an undeveloped parcel we owned for additional parking for the tenant's equipment. This helped seal the deal with the tenant.

■ **Find the right real estate broker:** Just putting up a sign doesn't cut it in repositioning a property. The owner has to find a broker who understands the objectives, is aggressive and is a right fit for the property. It also is very helpful if the broker has successfully repositioned properties in the past. There are multiple "hungry" brokers as a result of the economy. The key is to find one you can work with to help reposition the property. For example, on an out-of-state property we own (office/retail space), we were approached by all the major players. We ended up signing with a smaller local broker who had other listings in the area. She helped us take the property to 100 percent occupancy and was very creative on her targeting of tenants for our space. The final tenant we signed was a Web development company that needed office along with storefront visibility since they targeted small businesses in the area.

Repositioning a property is not for the passive owner. Properly repositioning a property takes a plan, flexibility and the right players working together to make the reposition successful.▲