

## Increasing Net Operating Income in a Down Market

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Declining commercial real estate markets created by turbulent economic times and worries of an uncertain future can vex even the most experienced property owners. While it's very easy to get caught-up in the herd mentality of the pundits and other industry naysayers who portray a doomsday mentality, it's considerably more profitable to get creative in your approach to increasing your cash flow. Remember that more significant and lasting wealth is created in down markets than is ever created in robust markets. However, the opportunities that exist in today's market climate only go to those willing to adapt their operating philosophies to creative and flexible strategies and tactics. In the text that follows, I'll provide you with 7 different strategies to increase your cash flow now...

**Accelerate Your Depreciation:** Even though Cost Segregation is nothing new, I'm amazed at the numbers of commercial real estate owners who have not taken advantage of the financial benefits so easily available to them. In a down market where times are tough; Cost Segregation is one of the few operating tactics that can immediately decrease your tax burden while increasing cash flow. The reason cost segregation is so valuable is that it can be applied when constructing a building, buying an asset, to an existing asset you currently operate, or in certain circumstances, years after disposing of a building so long as the year of disposition still is open under the statute of limitations.

**Renegotiate with Lenders:** In many cases today, lenders have no idea what your property is worth, and whether or not they're underwater on your debt. It is not uncommon to find properties where the current debt far exceeds the current

market value. If you find yourself in a situation like this, it is quite possible to restructure your debt via a loan modification that can both reduce the principal amount of the debt you owe, while immediately improving your NOI (net operating income).

**Use Creative Signage:** If you view signage as just another item to negotiate with tenants, then you may be missing a significant opportunity. Depending on the size and location of your property, there are any number of companies who will pay you for the privilege of placing advertising on your building. The creative use of wallscapes, traditional and digital billboards, banners, and other forms of signage afford the possibility of increasing your revenue.

**Monetize the Sun:** Depending on the size of your roof and the climate of the geographic area in which your building is located, you can place solar panels on the roof to generate energy. You can receive federal and state tax credits as well as revenue from selling the energy. Alternatively, if you don't want to deal with the time and expense of retrofitting your roof, you can turn the entire process over to solar energy aggregators by simply leasing the roof space and they'll do all the work.

**Can You Hear Me Now?** Again, depending on location, as well as the carriers serving your market, mobile communications and wireless internet providers may be willing to lease a portion of your property or roof space for cellular towers, Wi-Fi hot spots, etc.

**Leverage That Asphalt:** Many property owners don't leverage their weekend and evening parking capabilities. If you're located in close proximity to sports arenas, conference venues, concert halls and the like you can easily turn your parking area into a revenue generator by leasing the parking concession to a third party, or doing it yourself. Alternatively, if you have significant parking space available, flea markets, farmers markets, car shows, gun & knife shows, hobby shows, etc., are always looking for large open areas on the weekends.

**If At First You Don't Succeed:** If you have a large vacancy, consider using it as an opportunity to reposition your property for a higher and better use. A market shift that created the demise of a certain use or tenant mix may also present a significant opportunity for property owners to cater to a different use or tenant mix not affected by problems that plagued previous tenants.

**Serve the Community:** Many churches and civic organizations need evening and weekend meeting space and are very willing to pay for it. These can be very long-term relationships that can generate significant cash flow off of space that might normally go unused.

**Find a Partner:** If you can't continue to hold an asset based upon your current financial strength, or lack thereof, consider taking on a partner. Aside from all the usual suspects (lenders, investors, developers, other owners, etc.), an often overlooked category of partners are existing tenants. You may find a current or prospective tenant that desires to transition from a lessee to a principal with a carried ownership interest. The opportunity to secure a source of additional liquidity and balance sheet strength could be just what it takes to hold onto a property in this market.

The reality is that while many owners can take advantage of the items discussed above, not all principals are in a position to navigate current market complexities by riding out the tough times, and may need to consider cutting their losses. Whether you need help executing any of the strategies above, or need assistance in exiting a property while minimizing risk and loss, I would encourage you to reach out to me at any of the contact points listed below.

### **About the Author**

Rick Tilghman serves as advisor for Sperry Van Ness/Miller Commercial Real Estate specializing in the sale and leasing of retail, medical and office properties in Eastern Maryland and Delaware. Since starting his Commercial Real Estate career in 2005, Tilghman has been involved in over 200 transactions resulting in a sales volume of \$26 million.

Prior to joining Sperry Van Ness, Tilghman served as a sales manager for Carmax Laurel Toyota where he increased sales volume by 1,200 cars per month. Tilghman was responsible for approximately 15 sales consultants and their training, consulting, closings and customer service. Career highlights for Tilghman include being named "Top Manager" nationwide and holding the title for record number of car sales in one month.

Active in his community, Tilghman currently serves on the Executive Committee for Junior Achievement of the Eastern Shore, member of the Lion's Club, and is head coach of the boy's varsity soccer at Salisbury Christian School; he is also a member of the Salisbury Area Chamber of Commerce.

Tilghman earned the prestigious Certified Commercial Investment Member (CCIM) designation within his first 2 years in the business; he is a CCIM partner, member of the International Council of Shopping Centers (ICSC), member of the National Association of Realtors and the Coastal Association of Realtors

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