REAL ESTATE DECISION MAKING – CAPITAL MARKETS CASE STUDY
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So we're going to talk through two different case studies, both are real deals that we've completed literally in the last four months. We mentioned that we've started up a new investment sales group. So I've been handling that for the first nine months we've since brought on a senior person, but some local owners in the office along with two partners who are outside of Florida owned a couple buildings in northwest Tampa. It was four buildings totaling about 146,000 square feet, and as we listed here the challenge with the buildings was that they were about 67.5% leased, but you couldn't lease them up to 100%.

And the reason was what we started to see with a lot of office space is companies have learned that they're able to save money on their annual costs by packing people in. So whereas maybe you'd build a building with three or four spaces for every 1,000 square feet, 20 years ago. Now you probably need about five or five and a half, possibly even six.

Company like Bristol Myers comes the Tampa, they're able to save money on their annual costs because they're able to fit six, or six and a half people for every 1,000 square feet. So you're basically saving 50% and your costs when you go from four to six.

So what had happened with this building was almost half of all the space had been leased to a tenant who needed six and a half spaces for every 1,000 square feet. And what we ran into was we were out of parking. There was only 57 spaces that were vacant. They were not occupied per the lease. So in your lease it tells you how many spaces you're allowed to use. So there's 57 spaces, which is only 1.2 per 1,000 on the 47,000 square feet that were left. So basically the owners knew they weren't going to lease it up 100%.

So someone in the office, it was not me, I will not take credit, but they had the idea that there was an old four story building in the front of the property which had historically leased well. It needed some minor renovations, elevator, stuff like that. So what they decided was that, what don't you know that building down and you build parking. So when you knock the building down you're left with 100,000, 101,000 square feet. You have your same parking, but you've built parking now in this spot where the old building was and you now have six and a half spaces per 1,000 on the remaining building that are left, which means you can now lease them up fully and companies pay a premium for parking.

So what you're actually able to do by knocking one of the buildings down, I know it's counter intuitive, but you knock a building down and you actually create value because now you can, as an investor, assume that you actually are able to lease this building up and you're leasing it up at higher rents.

If I could just jump in, what's really significant when you think of that concept is a lot of the existing buildings out there are functionally obsolete. So when you drive around and you see these office buildings that were built to code, but parking back then when they built them was three spaces per 1,000, our clients are looking to occupy anywhere from six per 1,000 to 10 per 1,000.

So if you're trying to fit two to three times as many people into an existing building that has limited parking, it just doesn't work. So the thought of knocking down a building and getting rid of that asset to just create surface parking was, as Rick said, very counter intuitive, but there's a whole change going on in the marketplace. And this densifying of space is going to really hurt some of the older existing product that can't add parking.

And actually the reason why companies are able to do this is you guys. Because you guys were all, although I'm not that much older than you, it actually is a difference because I wasn't raised with a computer on my lap, but you guys were. You can walk anywhere, sit on a couch, and connect. And the way these spaces are built is they're very, very collaborative. So you'll have basically a long table like that and just a row chairs. And you come in, you get online, you connect, and you work. And these people are able to be productive, whereas Lou and I need quiet and privacy, and all that other stuff. It's changed quickly.

So this is where the buildings are. It's on the corner of Dale Mabry Highway and Linebaugh Avenue. So right here you are looking southward in aerial, and you've got one, two, three, four. So as we talked about the renovation plans what we had to include was negotiating buyouts with the tenants that were in place in the four story building, which was actually kind of tricky because some of them dug their heels in a little bit and made us really negotiate hard and pay them to get out. But we were able to get those terminations and then the plan we put together would increase the ratio for the whole park to 6.2 per 1,000, which we thought would appeal to a wider range of tenants because as Lou mentioned, everyone's looking for six per 1,000. No one wants four and they definitely don't want 1.2. It just doesn't work.

Actually on the next page, there's the plan. So there's the four story building. It would be knocked down with all parking. So this is a great idea and concept. And we think it'll work, but now you've got to sell it to the owners. So the owners have to spend their own money to knock a building down to replace it with parking and that's not always an easy sell. Now owners that bought this building, you have a lot of different types of owners. These guys just wanted to buy it and hold it, and collect their cash flow. So we brought the building out to the market to find an owner who was comfortable with knocking a building down and the value-add proposition of this deal.

So basically we brought the building to market in December. We finally got it sold in August. It's a long process. What was involved, we put together a 41 page offering memorandum, which is everything you'd need to know about the property. We blasted it to over 10,000 qualified investors who were looking for this type of product. What the offering memorandum included was an executive summary, which basically was kind of like a one pager where if Lou's the decision maker, it tells him what he needs to know and he can quickly decide if he's interested or not.

A lot of people don't ever get past that first page, but that was a key part of it. A detail proposed parking solution, which showed the plans that we just showed you along with just kind of quantitatively how you would have a better investment after you went forward with the parking solution. It also included property summary, which included photos, and floor plans, and maps, and construction specs on all the buildings. So an investor knew the type of construction that they were looking at and the way they were built, when they were built, roof warranties, things like that.

We also included a market overview, which basically just went into detail about the office market in northwest Tampa. We had to show the investors competing product based on the way the building stood now and the way the building would be once you upgrade the parking because there's a difference. There's not a lot of buildings that can give you that parking ratio. So we wanted to show it both ways so investors understood they'd be competing with a whole different group of properties.

A tenant by tenant overview, which basically just explained the tenants that were in place with the leases and what they did and so the investor could understand the strength of those cash flows. A financial summary, which is probably very similar to what you guys were doing in this class. We just showed some general modeling assumptions, lease [INAUDIBLE] assumptions for the space that was currently vacant, how long it would take you in a normal market to get that space leased up along with market release assumptions, which this stuff all goes in ARGUS. I'm sure you guys know what that is, right? No?

ARGUS is basically the multi-tenant software that you use. It's industry wide used when you have a multi-tenant building. It's the software that projects out for 10 or 11 years those cash flows and allows you to come up with a valuation. So we created that ARGUS file which had the market release assumptions so when every lease rolls you've got to make an assumption as to what's going to happen with that tenant. They're going to renew at this rent, they're going to spend this much in tenant improvements, commissions, free rent, it'll take this long to find a new tenant if they leave. You get the picture.

So then we negotiated the sale of this property with several different qualified buyers. We had about 50 people who downloaded everything and were in discussions. So the results. We had multiple offers. Property ultimately sold for $8.2 million, which is approximately $79.00 per square foot. That's within market. That's right around the range where we expected it to sell. And what that represented was an 8.7% cap rate on the in place that operating income for the remaining three buildings.