Cash Flow Tips
Pin your hopes to these new revenue streams

by Martin N. Burton

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Business owners have been cutting expenses, reducing payroll, and trying to chase down new sources of cash flow for two years. Yet, as the economic recovery lags, many realize they need to do even more. But what is left to cut? Where can they find new streams of revenue?

Real estate is often a company's first or second most valuable asset, so real estate-related moves have the potential to provide the biggest return on investment. Here are 10 original — and, in some cases, counterintuitive — strategies that commercial real estate professionals and their clients can employ to find additional savings and new avenues for cash flow, all based on real estate-related assets.

1. Pay 18 Percent Interest — and Save

Hard-money lenders usually are thought of as lenders of last resort, but savvy investors know when to use them as lenders of choice. Having a strong relationship with a private lender can help investors move quickly to seize fleeting opportunities before they vanish.

One client, a hard-money lender, helped a borrower pay off his $32 million loan two years early for just $21 million. The key was a quick closing. The original lender was struggling and needed to raise capital. It offered to cut the principal owed by the borrower in return for an early repayment. Scrambling, the borrower called up my client, who supplied half of the $21 million needed, secured by a first mortgage on the property, for 18 percent interest. The borrower supplied the rest of the pay-off amount, and the whole deal closed in three weeks. Within six months the borrower had refinanced with a new 6 percent loan. This was a win-win-win: The lender received immediate cash, the hard-money lender earned 18 percent interest, and the borrower not only saved $11 million but ultimately reduced its interest rate by four percentage points.

For opportunities that can't wait for an institutional lender, a hard-money lender can help make it happen.

2. Divide and Prosper

If the time has come to sell off an asset, owners can maximize the chances of sale and total return by selling off smaller parcels instead of a single large one. Not only do smaller parcels typically sell for higher per-square-foot values, but their lower overall prices attract more potential buyers.

In jurisdictions with complex land-use regulations, simpler lot-tie terminations or lot-line adjustments often work. For example, one national corporation needed only half of its two-building Los Angeles campus for operations. It decided to consolidate its personnel in one building and sell the other. All that was needed was to terminate a single lot-tie covenant, a procedure processed at building department staff level. In a matter of months, the client had secured a permit to physically separate the formerly conjoined buildings, finished the construction work, terminated the lot-tie covenant to separate the parcels, and was able to sell one site separately.

3. Increase Value

The subdivision example above illustrates an important land-use principle: Scale down complexity to lower costs and enhance chances for approval. For example, if residential construction will exceed square-footage maximums, instead of seeking a variance — requiring a discretionary public hearing — convert part of the project into basement space, which won't count toward habitable square footage calculations and requires no hearing.

And before selling assets, owners should determine if they can quickly secure entitlements that will increase the sales price. Entitlements to add density, renovate space, increase parking, change use, or otherwise add to the value of a property before it is placed for sale aren't always as hard, expensive, or uncertain as they might seem.

4. Find Power in Numbers

Sophisticated property owners devote substantial time to selecting top legal counsel, but many times they fail to recognize the tangible benefits a superior accountant may bring, year after year. For example, most accountants know to depreciate a real estate asset over a standard 39.5-year period, but accountants who specialize in real estate investments can tell you when to perform a cost segregation — accelerating depreciation of costs by segregating categories of improvements.

Parking lots, for example, can be depreciated over 15 years, and individual improvements within offices or apartment units — doors, for example — can be depreciated over just five years. Such accounting techniques work particularly well for real estate developments with divisible units: hotels, apartment complexes, and office buildings, for example.

And for owners whose projects have turned into financial disasters during the recession, an excellent accountant can help to maximize those losses against other gains.

For one client with an underperforming project, my best advice ever was to refer him to a top quality, creative accountant, who applied the techniques above to find $140,000 in overpaid taxes that a previous accountant had failed to see.

5. Embrace This Audit

Some companies have begun to adopt green practices, such as switching to fluorescent bulbs, or making sure employees turn off lights and computers regularly at the end of each day. But a comprehensive energy audit can help leverage the benefits of these improved practices to achieve even greater savings.

A professional energy audit will cover multiple approaches to reducing costs: operational changes, technology upgrades, equipment retrofits, and energy control measures. Importantly, a professional firm will provide benchmarks that compare an asset's energy costs to the competition. Since some states require owners to disclose to tenants, lenders, and buyers the energy consumption rating for their commercial buildings, an all-inclusive energy audit can be used for both purposes.

Some practices cost little to nothing and can be implemented immediately. Power strips, for example, automatically turn equipment off after a preset period of inactivity to reduce plug load: This move can shave 10 percent to 15 percent off energy costs. Operational changes such as shifting use of energy-intensive equipment to off-peak hours (with less expensive rates) can often be implemented with little impact.

Other retrofits require capital but pay dividends over the future. Energy efficient windows, roofing, and insulation all can have a significant impact on energy costs. A comprehensive approach to energy savings can help owners schedule upgrades and changes for maximum impact.

6. Bond with PACE

Property Assessed Clean Energy bonds can make green retrofitting even easier, allowing cities to finance a property owner's green improvements. The owner repays the loan through tax assessments on that property over 20 years. In many cases, the money saved in reduced energy expenses is enough to cover the loan and bring in cash flow.

Last summer, Fannie Mae and Freddie Mac announced that they will no longer allow PACE financing on mortgages they buy, freezing PACE financing for all residential projects. The good news is that, as a result, funding for PACE bonds has migrated to the commercial sector, creating more programs tailored to meet the needs of commercial projects.

7. Get Paid for Rays

Until recently, electricity generated from solar panels on one's property could only be used to offset the electricity used on that site. Now, feed-in tariffs allow property owners to sell excess solar power directly to a utility. The electricity generated on rooftops feeds into the utility's power lines, for which the utility pays a tariff to the property owner.

A pay-for-rays program like this has been used successfully in Germany since 2000 to produce enough solar-generated electricity to power 750,000 homes, establishing Germany as the world leader in solar production. Properties that use little on-site energy (such as warehouses and parking lots) or whose owners are not otherwise able to benefit from electric bill credits (such as apartment and office property owners) would then have an incentive to add solar panels.

8. Increase Parking Revenues

Parking operation changes hold enormous upside potential for properties located in high parking demand areas. This is because the primary investment required to raise parking income is in management and not physical construction. A change in operations can unlock the hidden value in pricing for weekend, weekday, in-season, out-of-season, reserved, and valet parking, increasing parking "turns" and, consequently, revenues. Even changing the mix of just a portion of stalls from monthly reserved parking to daily or hourly parking can have a substantial impact on cash flow. Contact a parking professional for a look at just how much money can be made.

9. Consolidate and Save

Many companies keep scores of affiliated entities on the books — mainly title-holding limited liability companies, corporations, and partnerships. Across multiple jurisdictions, it becomes increasingly costly to track compliance, submit annual filings, keep corporate records, and stay up-to-date on changes in each jurisdiction. The penalty for not keeping an entity registered can be significant transaction delays.

Some corporate services offer volume discounts to handle all of a company's registration and corporate maintenance nationwide. One real estate developer, for example, has saved tens of thousands of dollars in annual out-of-pocket and staff costs by outsourcing its corporate maintenance for more than 100 entities.

10. Cut Litigation Risks

Litigation happens, but there are intriguing new ways to manage the risks and minimize costs. For example, insurance has recently become available for both plaintiffs and defendants that will pay the other side's attorneys' fees in the event of an adverse judgment. This can help make litigation costs more predictable.

Cutting expenses and finding new revenue streams is not glamorous work. It is the "blocking and tackling" of real estate management. But piecing together initiatives will advance the ball down the field — slowly but surely — and, perhaps, even score a touchdown.

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