



How to add value to commercial real estate in 12 ways - by Ron Koenigsberg

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To add value to commercial real estate means doing improvements, that will enhance their value and ultimately increase cash flow. This is a way to breathe new life into existing commercial real estate markets.

With commercial properties that have become tired and/or obsolete, developers can create brand-new, desirable assets in markets that crave new inventory. Value-add components of a commercial real estate deal can include renovations, repairs, building reconfiguration, additions, subdivisions, vacancy lease ups, zone changes, and more.

Is Adding Value to Commercial Real Estate Easy?

Although this may sound adventurous and exciting, it is no easy or quick task. Value add investments require real estate investors who have expert knowledge in identifying the areas of the property where value can be added.

Even further, extreme due diligence, and accuracy in costs, timelines, and absorption are imperative when investing in value-add properties. Failing to do proper research on a market is a huge mistake investors make in their search for value-add investments.

The stand-alone key to value add investments is found in the due diligence.

The Purpose of a Value Add Opportunity

If done correctly, the appeal to purchase a property that has a value-add opportunity is the ability to get creative and think outside of the box. Brainstorming ways to increase the NOI from when the property is purchased is the main goal.

There are many ways in which investors can do this, from making structural and cosmetic changes to updating the existing leases.

Below we will explore some of the potential ways in which value can be added to these investment properties enabling for an increased return.

12 Ways To Add Value to Commercial Real Estate

1. **Reconfigure Space.** Adding more space or dividing up space can go a long way in increasing commercial property value. Adding space such as parking or storage can easily increase value as both are always in high demand. Finishing unfinished spaces or building additions could also be a way to achieve this.
2. **Outside “Facelift.”** Clean up the outside of the property. Remove all trash, and paint the outside brick or siding, or replace it all together. Sprucing up the outside of the property is a quick and relatively easy way to make a small(er) change look and feel like a drastic improvement.
3. **Update & Modernize.** The property building itself should be up-to-date and comparable to surrounding buildings in quality, and representative of the area’s aesthetic and style. It is also important to update the HVAC system to energy-efficient standards. Updating water heaters and lights will also create value-add.
4. **Name the Property.** Naming a property enables people to identify with its purpose and position in the market. The name can be obvious (“Street Name Plaza”) or something totally obscure (“Sunny Acres Plaza”). Either way, having a distinct name for the property begins to brand the property and creates memorability.
5. **Update the Signage.** The property’s signage should attract people from the outside and should also accurately represent a property’s purpose. Be sure that the signage is large, clear, visible, and easy to read. The investment in signage is always a value-add.
6. **Increase Security.** Security features such as alarm systems, gates, and shutters, can increase property value by making the property more attractive to tenants. These features also lower your insurance premium.
7. **Know the Neighborhood.** Knowing what other commercial properties in the area sell and lease for, and the general market value of the area, will be helpful in determining what direction(s) to go in for the commercial aspect of the property. Knowing what the area is lacking and what the local demand is will only help you further.
8. **Find Tenants and Avoid Vacancies.** Finding tenants and avoiding vacancies are likely the most obvious ways to add value to your investment. Finding reliable and long-term tenants is key.
9. **Be Creative.** Be creative when thinking of methods to find tenants. Consider move-in specials to attract new tenants as well as asking existing tenants to refer new tenants.
10. **Change the Leases.** Raising rents is the quickest way to increase your cash flow allowing you to put that money back into the property for value-add opportunities. Higher rents will also attract higher-end tenants. However, when raising the rents you must also be prepared to experience

vacancies from current tenants who can no longer afford the rent increase.

11. Apply RUBS. Implementing a ratio utility billing system (RUBS) shifts the expenses of utilities to the tenants based on the size of their units, occupants, and use. This method will cost more for tenants, but it will bring more net income to the landlord.

12. Replace Property Management Company. Take a close look at the operation and efficiency of the property management firm responsible for the building. If the property is being mismanaged, or there are missed opportunities to reduce expenses, be sure to fix them.

Conclusion

There are many ways investors, and owners, can add value to their real estate investments or commercial properties. Many of the methods require updating the exterior and interior of the property, and changing lease terms. Whichever method you choose, it'll be sure to add value to your real estate.

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