nyrej

Five important questions to ask when managing a real estate portfolio during an economic downturn

November 21, 2008 - Spotlights

Property owners, investors and commercial real estate portfolio managers are probably feeling glum these days as they watch incomes drop and expenses rise. It seems that bad news is everywhere. But even in the worst of economic times, there are ways to 1) maximize your cash flow, 2) reduce your tax liability, and 3) keep more money in your pocket. All too often there are many sources of revenue that are overlooked by experienced real estate professionals. Even in an economic downturn, there are a number of effective tools that can help you.

Depending on whether you are holding, selling or buying real estate, to stop leaving money on the table and find these hidden benefits, ask yourself these five important questions:

* Have I taken advantage of the latest tax regulations to lower my tax liability and improve my cash flow?? You may be able to accelerate the tax deductions you claim for depreciation by reclassifying eligible assets to shorter recovery periods.?A cost segregation study - conducted by a team of qualified accounting, engineering and tax experts?- can help obtain the greatest tax benefits from any real estate holdings.

* Have I recently reviewed my leases?? If?not, you may be generating less income than you should.? Meticulous and up-to-date lease abstracts will identify all critical lease dates, including lease expiration dates, rent step-up dates, as well as renewal and option dates?to ensure you are?receiving maximum rents.?

* Have I reviewed the Common Area Maintenance for my properties lately?? You may have legitimate expenses that are not being passed-through.? A portfolio management expert can help by performing a desktop audit and reviewing the operating expenses, CAM, taxes and insurance to ensure maximum pass-through of legitimate obligations to tenants.

* Am I preserving my investment capital by deferring capital gains taxes? If you are selling a property, it might make more sense to exchange one property for another. The IRS allows you to defer capital gains taxes through a §1031 Exchange with a Qualified Intermediary. Since the rules governing this process can be complex, it is advisable to draw upon the expertise of a Certified Exchange Specialist to maximize the benefits of the exchange.

* In considering the acquisition of a distressed or foreclosed property, am I certain it is accurately valued? Without a current, thorough and independent analysis of the value of the property, you may not be buying the deal you think. A thorough financial audit of the real estate asset, analyzing and verifying historical financial statements, scrutinizing each income and expense item and providing a detailed cash flow analysis is key. In large or complex commercial acquisitions, it makes sense to have a financial due diligence specialist with expertise in commercial real estate conduct the audit.

?The commercial real estate market faces extraordinary difficulties today, and not all investors and managers will successfully meet these challenges. Of course, the turmoil will eventually subside and a new status quo will emerge. In the meantime, it is important to focus on the positive things you can do today to help your bottom line. There are targeted resources and specialized services available that can help ensure that your business not only survives the current downturn but emerges stronger than ever.

Elliot Zaks is principal for Madison Commercial Real Estate Services (MCRES), Lakewood, N.J.