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## **Business is Improving – So What? Don't Take Your Eye Off the Ball!**

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As year-end rapidly approaches and the economy shows definite signs of life, prudent business managers, Presidents and CFOs alike, must not take their eye off the ball as it relates to seeking greater flexibility and pursuing hidden profit opportunities. Day-to-day business operations and real estate in general, whether owned or leased, possess the opportunity to accomplish both of the above important missions. Setting the pace for profit mastery is not to be left to middle managers, but must be the domain of the company's upper most visionaries. Here are a few profit generating methods that have proven successful for our clients:

### **Lease Audits / Operating Expense Reviews**

Our service partners inform us that a significant source of lost profits stem from landlords overcharging tenants for operating expenses. Now, that statement is not intended to suggest that landlords intentionally overcharge their tenants. But irrespective of the reason, if you suspect that your company's landlord may be overcharging you, go get your money!

Establish a program of auditing your company's leases on a regular basis, either through sampling or through a thorough and comprehensive analysis of all costs associated with each lease. Many lease audit service providers offer excellent services in this arena and will often perform such analyses on a percentage of savings basis with nominal up-front costs. Under such an arrangement, your financial objectives should be aligned with that of your service provider, which is always an advantage.

### **Property Tax Reduction Strategies**

We arranged for a client of ours to acquire a new 443,000 sq ft headquarters for its US and international operations. Our client rebuilt the entire building, investing more into it than they spent to purchase it. Since property taxes are based on the improvements to a property including the interiors, and since during renovations our client removed most of the interior improvements, we advised that they seek counsel as to whether they would be entitled to a property tax reduction.

Keep in mind that although a property holder may be entitled to a property tax reduction, the municipality has no obligation to advise the property holder of its entitlement. And, since property taxes are municipal revenue, it is incumbent on the property holder to pursue the reduction to which it may be entitled.

As a result of our recommendation, our client was able to obtain a property tax reduction of almost \$400,000 for each of the next two years. You read that right...they reduced their taxes by almost \$800,000 over two years.

Whether your company owns or leases its real estate, a property tax reduction strategy might prove beneficial. If your company is a sole occupant or occupies large portions of properties, seek counsel to determine if such an approach could yield positive results. Certain leases may not provide the tenant with the right to pursue property tax reductions or may stipulate that property tax savings inure to the benefit of the landlord only.

Figure out how you might be able to work around that and whether your company is positioned to avail itself of the financial benefits of a property tax reduction strategy. Service providers in this field often work on a percentage of savings basis similar to that of lease audit service providers.

## **Property Management Review**

Is your company an efficient operator of its properties? Do you use third party property management companies to run your properties? Whether your company leases or owns its properties, conduct a thorough annual review of property management policies, procedures, purchasing, expectations, and accomplishments. Even if your company manages its own properties and does not want to endanger the jobs of its employees, a property management consulting company can assist you in establishing best practices that will support the business objectives of your company, enhance the service delivery of your staff while protecting their positions, and lower operating costs thereby, bringing greater profits to your company's bottom line.

## **Lease Restructures**

I've written a lot about lease restructures over the last year: "An Improving Economy?" (September 2003); "Lease Restructures and the Devil You Know" (August 2003); "Is Your Company's New Lease Too Old?" (April 2003); and, "The Coming Real Estate Market" (November 2002), and spent a considerable amount of time discussing them in our recent Tele-Seminar entitled "*Real Estate Strategies for Changing Companies.*" If your company seeks a beneficial means of reshaping its current real estate lease, a restructure could be the answer.

Landlords and tenants, if properly prepared, can both benefit from this approach. Benefits might include:

Less Space	Reduces tenant's costs
Lower rental rate	Reduces tenant's costs
Renovations provided by landlord	Reduces tenant's costs
New Rights or options	Increases tenant's flexibility

Everything has a price. A restructured lease, if not planned properly could actually reduce tenant flexibility, and a landlord will only agree to a lease restructure if it creates worthy advantages for him or her, too. A restructure could create the following landlord upside:

Longer lease term	Increases landlord's ability to re-finance current debt, and might lower property's risk profile
New rental structure	Increases landlord's cash flow now, in the future, or both
Space retrieval	Increases overall cash flow and diversifies risk

Leases can be restructured at any time, irrespective of the remainder of the existing lease term, so long as value can inure to both tenant and landlord. In fact, many companies have instituted an on going program of reviewing their entire portfolio of leases to assess where they can attain the greatest return from lease restructures. Determine if your company is a candidate for a lease restructure.

## Cost Segregation Analysis

Many companies take the simplified way out and place all property renovations into the same basket of depreciation. Cost segregation is a dynamic service typically offered by valuation companies. Whether renovations have only recently been completed or if they were done years ago, your company might increase profits by employing an accelerated depreciation schedule that might yield positive financial reward.

## Power Purchasing

Like operating expenses, a significant area of lost corporate profits is in the purchase of power for commercial use. According to our service partners, on whom we rely in this area of expertise, overcharging is a common occurrence and many corporations could simply purchase their power at more competitive rates and terms. Whether your company builds super tankers or just pushes paper, reviewing how you purchase power, conducting a forensic audit to determine if you've overpaid, and setting up a monitoring service to evaluate future use, billing, and payments, could provide profitable.

## Real Estate Portfolio Review

Are you certain that your company's business units occupy the right type of space, in the right area, and at the right price? Does your company maintain an active database of available space, and are you communicating that data between business units? Ford Motor Company recently underwent a detailed examination of its real estate holdings and realized that by co locating certain business units and particular employees in the available space of other operations, and by bringing together certain business groups, the company could actually improve overall efficiencies, reduce the amount of space it requires, and increase business unit and corporate profitability.

## Sale Leasebacks, Refinancing, Selling and Relocating

Should your company own its real estate? Well, that's not necessarily the first question to ask. Matt Kirby, Strategic Planning and Profitability Advisor, and Vice President at Real Estate Strategies Corporation, with a twenty year career in corporate finance behind him, wrote a great article in this issue of this publication called "*Re-Purpose Corporate Assets for Greater Profits.*" Check out what Matt has to say on this matter.

## Stay Focused

So, the consensus in the business community is that the economy's coming back, not roaring back, but is on its way, nonetheless. Remember what it's been like these last two or three years? Don't assume that things will simply become easier and profits will jump into your company's coffers. Keep searching for methods to maintain and increase your company's competitive edge. Innovate within your organization, promote change, and seek out ways to continue to increase efficiencies, create greater flexibilities, and uncover hidden and unproductive working capital. Real estate is an excellent source for you to find success!

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Andrew B. Zedas, SIOR, is Relationship Manager, Strategist, and President & CEO of Real Estate Strategies Corporation, Publisher of "*Business, Profits and Strategy*", a monthly online publication read by thousands of business, financial, and real estate executives nationally, and, is the author of two new real estate books, *The CFO's Guide to Understanding Corporate Real Estate Transactions* and *The CFO's Guide to Hiring the "Right" Real Estate Service Provider*, both of which will be available shortly at [www.thecfosguide.com](http://www.thecfosguide.com).

Mr. Zedas is well-known for his ease and informative style of public speaking, and has given talks, presentations, and has lead educational programs for business, professional, government, and trade associations, including the Building Owners and Managers Association, American Management Association, the U.S. Postal Service, RealComm, Society of Industrial and Office Realtors (SIOR), and others. Andrew is National Chairman of the SIOR Tenant Representation Specialty Practice Board, and is a licensed real estate instructor in Texas and Indiana. He can be reached at 908 245 5999 or via [email](mailto:andrew@realstrat.com).

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