

February 4, 2021

Arcadia Association of Realtors

# Effects of the Covid-19 Pandemic on the Office Industry

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Office Space Vacancy in Pasadena/Arcadia/Monrovia March 1, 2020 was about 6.7%  
Office Space Vacancy in Pasadena/Arcadia/Monrovia February 4, 2021 about 19.6% and  
increasing weekly

## Office User in transition

Should we all work from home and on Zoom?

Is our productivity the same?

What employees can work at home the same or maybe better, or much worse?

Can employees who process transactions, billing, invoices, data and coding work from home?

How will office space be configured in the future? Large conference rooms for monthly meeting  
with large screens for Zoom calls?

Will high rise office spaces be converted to residential? What will vacancy be in high rise  
buildings by 2023 and later?

Are small and mid-rise office buildings going to also lose value?

Will many parking lots be mostly vacant?

What type of office user will return and fill their entire office space, Lawyers, Medical  
Professionals, CPA's, Insurance Companies, Advertising and Public Relations Industries?

Why is the local industrial vacancy rate about 2% and office vacancy almost 20%

How much does office vacancy hurt the retail spaces near these buildings?

What do you advise office building owners to do now and in the future?

**HERE WE GO AGAIN! THE PARTY MAY BE OVER SHORT TERM. WE ARE ESTABLISHING NEW HIGHS FOR COMMERCIAL REAL ESTATE PRICES LOCALLY. HISTORICAL PRICE PER SQUARE FOOT OF A 20,000 SQUARE FOOT OFFICE BUILDING IN SOUTHERN CALIFORNIA**



# BUYING VS. LEASING YOUR COMPANY REAL ESTATE

## ADVANTAGES OF LEASING

- More flexible terms, easier to relocate and right size
- Quicker to locate property, complete transaction, occupy space and operate business in a few days
- Much less "hassle factor", no property management issues, partner problems, tenant issues and complaints
- ★ No opportunity cost lost, by using capital to purchase property and improve interior/exterior
- ★ ★ Spend your valuable and precious capital on expanding your business, not on real estate

## ADVANTAGES OF OWNING

- Most costs become fixed, except operating expenses (taxes, insurance, utilities, maintenance and janitorial service)
- ★ Some tax advantages: depreciate value of building (not land) over 31 ½ years and deduct interest portion of your loan payments
- ★ Appreciation likely over next 8 to 16 years (not 1 to 5 years)  
Own real estate when loan is paid (**consider 15 year**, not 25 or 30 year loan) amortization, and making two payments per month, building is paid-off in ½ the time, the interest rate is often lower, and it is a savings plan)
- ★ Borrow against property if there is equity
- ★ ★ Sell your business in the future, keep the property and lease it back to the new owner
- ★ ★ ★ Although purchasing usually costs 20% - 50% more than leasing over a 15 year term, you are paying off principal and eventually own the building free and clear.

## HOW COMPANIES CAN REDUCE THEIR COST TO OCCUPY COMMERCIAL REAL ESTATE

- ★ Complete a programming (space) study of your facilities and be realistic about how big offices, common areas and all your space needs to be.
  - What shape, rectangle or square, will satisfy your space needs most efficiently.
  - Consolidate where possible, reduce size of desks from 30 x 60 inches to workstations.
  - Share space by using cubes/desks for 2-3 salespeople and others.
  - Move to areas with free parking.
  - Use off-site storage rather than located in your space.
  - Reduce size or eliminate conference room, especially if you use it only a few times a year.
- ★ Relocate to sublease spaces, (now much more difficult to locate) which is often 20-40% lower than space offered directly by landlords. Sublease space is offered by companies who no longer need their space, but have a lease obligation.

### IF YOU OWN:

- ★ **Maintain and repair your building often, before there are problems. Paint building often, plus the common areas, especially bathrooms and lobby which should look great.**
- ★ **Re-finance now at record low rates.**
- ★ **Purchase (and never sell) adjacent properties.**
- ★ **Renew leases early to preserve income. Communicate with your tenants quarterly. You want your tenants to be successful. Tenant's will often renew their Lease if they like or respect you. Your tenants are not your enemies, they can make you very wealthy!**

# WHAT DO WE PURCHASE NOW?

## **Purchase: Multi-Tenant industrial buildings.**

Why? Consistent demand, accommodates lots of uses, low maintenance, little management.

## **Purchase: Apartment Buildings in urban and well located areas.**

Why: Consistent demand, good management, rents increasing.

## **Purchase: Net Leased drive-thru retail buildings with lots of land.**

Why: Lots of users, little or no maintenance or management.

**The more land, the better!**

**You have to be able to react and make an offer.  
Cash offers are best, with short due diligence periods.**

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# What Makes Good Commercial Real Estate?

Retail amenities within walking distance

Crime rate low or decreasing

Design and appeal of exterior, structure of building secure (earthquakes), interior, lobby, windows in suites, adequate, clean and accessible restrooms, no mold, underground tanks or hazardous waste

## **Is current rental rate of tenants at market, above or below?**

What rate do you have to rent the space for to pay all expenses, including your loan and a return on your cash investment? How does that rent in the building you are buying compared to the current rent in other similar buildings ?

City leadership: is the City Council and Planning Commission Pro Growth, Anti Growth, Zoning of your property today and in the future.

What are the cities plans or goals for the area short and long term?

The strong commercial real estate market will likely continue to appreciate over time if you purchase the right properties.

# You Need A Written Partnership Agreement

If you own property with family members, friends or as a minority partner with others, you must have a written partnership agreement.

You need to identify who can make decisions for the partners, have a clear and precise written partnership agreement that states how you can sell (or your partners can sell to you) your (or their) minority share of the property with your family members, friends or partners in the future. Also, who is the Managing Partner and how are decisions made? What is your liability if the property loses money or if a bank forecloses? This will avoid future disputes and very costly delays or litigation, when leasing or selling your property owned with partners.





*Joy*

# Q & A

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