
MAXIMIZE BUSINESS VALUE PODCAST - EPISODE 29 with Bob Gibbons

Announcer (5s):
Welcome to the maximize business value podcast. This podcast is brought to you by mastering partners, where our mission is to equip business owners, to maximize business value so they can transition their business on their terms. Our mission was born from the lessons we've learned from over 100 business transactions, which feels our desire to share our experiences and wisdom. So you can succeed. Now, here's your host CEO of mastery partners, Tom <inaudible>.

Tom Bronson (36s):
This is Tom Bronson, and welcome to maximize business value. A podcast for business owners who are passionate about building longterm, sustainable value in your business. In this episode, I'd like to welcome our guest Bob Gibbons principal at Riata, which stands for which is a acronym for real estate advisors and tenant advocates. You'll learn more about that in a few minutes, I actually got to know Bob, when he invited me to be a guest on his former radio show, the next level radio show on iHeartRadio. Bob now hosts a podcast called confessions of a recovering landlord. You should check it out.

Tom Bronson (1m 17s):
I've really gotten to know Bob through business navigators, a servant leadership organization based here in Dallas. What a surprised if you're a regular listener. You know, I bring folks on from business navigators a lot because it's really a great organization and has a lot of servant leaders in it. And so today on the podcast, we're going to focus on real estate and how COVID has impacted the market and of course, advice on how to build longterm sustainable value in your business. So welcome to maximize business value. Bob, how are you?

Bob Gibbons (1m 55s):
Great. Thanks Tom. Appreciate you having me on your show today.

Tom Bronson (1m 58s):

I'm glad to have ya tables have turned a little bit. Now I'm going to be the interviewer.

Bob Gibbons  (2m 2s):
No zingers. All right.

Tom Bronson (2m 5s):
I remember what happened on the show. So tell us about Reata.

Bob Gibbons  (2m 10s):
So Reata, as you mentioned, is a acronym for real estate advisors and tenant advocates. So it's Reata commercial Realty. And so we are, what's known as a tenant advisory firm. We only represent the users of real estate and more specifically, those companies and nonprofits that use office buildings and warehouses. We don't work with people in shopping centers. We don't deal with people in multifamily apartments.

Tom Bronson (2m 39s):
We're only specialized in, on office and warehouse. And, and we do medical by the way, because medical is kind of a subsidiary of office. So office warehouse medical, and, and so we're only representing that. We never represent landlords. I did represent landlord for 20 years. I now only represent the user of the tenant, whether they to buy a building or whether they want to lease a building. So I didn't realize that you could be that specialized in, in commercial real estate. I are there people who actually represent landlords only?

Bob Gibbons  (3m 11s):
Yes. And in fact, in commercial real estate, in a large market, like the Dallas Fort worth area, you pretty much have to specialize. It's hard to convince a client that they should use a generalist because generalists are trying to be everything to everybody. And therefore they're not a specialist at anything. And, and so that's a bad idea to use somebody who's not a specialist. If you go to a small market, let's say you wanted to go to say little rock or Amarillo, you know, in those cases, you know, people have to be more generalist cause there's just not a big enough market for them to specialize in and make a living.

Tom Bronson (3m 45s):
Yeah, I get it. So a big market like DFW or Chicago or New York and a half to specialize because there's so much out there. Right. That's a, that's interesting. So what is your background and why did you decide to become a tenant rep from being a landlord rep?

Bob Gibbons (4m 4s):
Well, my background was that I started in commercial real estate. When I was still in college. I was getting my, my BBA business finance at university of Texas Arlington. And, and I'd been building cabinets for houses and I was really tired of that. And I wanted something that was more business oriented. So I went to the student employment office and I got a, you know, this before the internet. So we had little three by five cards on the window. And I saw one that said market research analyst. And I thought, wow, that sounds interesting. Or, you know, impressive anyway. And I had no clue what it meant. And I went and did the interview and it turns out I was a sidekick for one man real estate office, which was a subsidiary of a Belgian investment company.

Bob Gibbons (4m 44s):
And I got the job making five bucks an hour and 37 years later, I'm making 5.50 an hour. So the rewards are clearly there.

Tom Bronson (4m 53s):
You've got to have 10% in 35 years. That's right.

Bob Gibbons (4m 57s):
How could you fault that for a great career? Right. But I, for the first 20 years, I really only represented landlords. I, I did some general brokerage. We did land assembly. We managed a bunch of property around farmer's market back before all the new development that's there today was there did a lot of demolition, you know, this is the eighties. So we thought, you know, we were going to build building these giant high rise office buildings. And of course that was the bad market timing. So that never happened. And so I left that company and the Belgian company, I stayed with them for four and a half years. Even after college, I stayed with them, went to another company called Prentice properties, which has been acquired and is owned by somebody else. Now it's not under that name.

Bob Gibbons (5m 38s):
And I was doing property management. So I was managing high rise office buildings based in Dallas. Most of the time, although I did live in LA for awhile and an Austin had properties that I was responsible for from San Antonio to Milwaukee. And, and then I left them and became, what's known as an asset manager. So the asset manager is the person who has overall responsibility for the financial performance of a property. And I would have anywhere from 20 to 30 office buildings, it was my responsibility. And most of that was in Texas, Dallas, Fort worth, Austin, Houston, San Antonio, but also Phoenix

and Northern Virginia at times. So I've done a lot of traveling. I've done a lot of work in a lot of cities around the country, but most of my career has been based in DFW.

Tom Bronson (6m 22s):
Wow, that's a lot. But then the, so that's when you were on, you were an asset manager still working for a bigger

Bob Gibbons (6m 29s):
For landlords. In fact, yeah, I was, I worked for an investor. It was a family on a investment company based in Chicago as an asset manager, but I was the guy actually signing the leases for the landlord, negotiating those, the leasing agents reported to me now the property managers had to have their budgets approved by me or their capital projects approved by me, that kind of thing. So, you know, how did I go from the landlord for 20 years to be an, a tenant rep? The answer is easy. I got fired in that way. Right. But the best kick in the butt is when you have no income. Right? So I, I actually got laid off the family that owned the company, decided that after 105 years in existence and owning 80 office buildings at that point that they were going to sell all the assets and lay everybody off.

Bob Gibbons (7m 22s):
And really it was a power struggle among the family members. It was a very sad day. I love that company. I would have never left that company. It was such a great gig, but you know, when people decide, they can't really get along or don't have an agreement or alignment on their goals and objectives, that's the kind of thing that happened. So, you know, I knocked around looking for the next landlord gig for a few months, but ultimately thought, you know, I've always looked at the tenant side and liked that I'd worked with a lot of tenant reps. They, I viewed them as my primary client when I was a landlord. And so I decided to become one of them.

Tom Bronson (7m 55s):
That's that's awesome. I am so glad that you shared that story about the breakup of the business. I mean, that was a sizeable business broke up because of the family disagreement, you know, that's, that's exactly the kind of thing that we work with on a, on a daily basis, you know, mastery partners, we help business owners think through and develop a strategic plan for how the business will transition and, and the breakup that you described happens more frequently than not when you haven't really developed a smooth transition strategy. And so, man, I, I'm sorry that you got caught up in that and more business owners should be, should be thinking about that, but I'm glad you did.

Tom Bronson (8m 41s):
Cause here you are, you know,

Bob Gibbons  (8m 43s):
Well, I'll tell you one other thing in that breakup, it was a combination of a power struggle, but also the expiration of a family trust. And so family trust had been created back in like, I think the fifties I want to say and was going to expire and the say 2010s range. And, and so, you know, that power struggle combined with the expiration of that trust that was going to have to be restructured kind of combined to create that situation. So I agree with you, you know, family businesses can be fantastic, but they can also have unique challenges. And so having somebody like yourself to help companies figure out and families figure out how to navigate that into the longterm future is really important.

Tom Bronson (9m 32s):
It's one of the reasons why we actually have psychologists on our staff, right, to be able to deal with that, you know, the, the, we call them consultants, but they are actually psychologists and we have to go and deal with some of those family issues. So, so normally we reserve conversation about COVID until after the break, but I really want to jump into the deep end of the pool. You know, this, this podcast of course is evergreen. You might be watching this five years from now, but we're recording this, you know, we're six, seven months into this whole COVID thing. And so I wanted to jump right into the deep end and talk a little bit about COVID and how it's impacted the real estate market.

Tom Bronson (10m 14s):
Cause frankly, I think that that's what folks are here to, to hear today. And so, so I've heard all kinds of things about how it's impacted the market, some good, some bad, right from your lips, how has COVID affected the current commercial real estate market

Bob Gibbons  (10m 32s):
Inconsistently?

Tom Bronson (10m 34s):
I'm good. So I'm hearing the truth both ways.

Bob Gibbons  (10m 38s):
Well, it really depends on the type of product you're talking about. So for example, we don't work in multifamily apartments, like I said, but those are doing great. As far as

from an investment standpoint, a lot of people are still buying those and anxious to do that. Although in certain States there's a big problem. I was actually on a call this morning with a trade association group that I'm a member of. And one of the guys that does apartment sales was telling us that in California, there's a eviction moratorium. So basically that means that between now and the end of 2021, landlords can not kick tenants out for not paying the rent.

Bob Gibbons  (11m 20s):
And yet those landlords still have to pay their mortgages, that to pay their employees, they have to manage the buildings, pay the expenses, the taxes. It's just a very untenable situation for very long. And, and you know, certain States have done that kind of thing. And it's just, it's going to have a devastating effect. And in fact, what's happening is those investors are desperately trying to sell those and move their capital to places where those kinds of regulations are not being imposed upon them. Retail has really, of course been hurt badly. Cause as you've seen, you can't go shopping. You haven't been in the past and we've been able to go shopping at your favorite store or go eat at your favorite restaurant. So a lot of those have gone under, so it's had a really bad impact impact on office.

Bob Gibbons  (12m 4s):
I mean, I'm sorry on retail office, of course has been hurt pretty badly as well. Not as badly as retail because most landlords didn't shut down office buildings. You could still, at least in Texas continue going to the office if you wanted to. And so tenants found themselves having to pay the rent still, even though they may have chosen not to go to the office. And so most companies are still not going to the office and yet they're having to pay the rent, but most landlords were good about deferring the rent and not charging like pay payment penalties or interest on that. But ultimately it was just a deferral of the rent and not a waving of the rent. So they still had to pay it.

Bob Gibbons  (12m 46s):
So office has been hit pretty hard. In fact, since COVID started the amount of sublease space that has come to market has doubled. And so we now have about 9 million square feet of sublease space available in DFW alone.

Tom Bronson (12m 60s):
It's about 9 million square feet.

Bob Gibbons  (13m 2s):

That's just DFW Countrywide. It's about 145 million square feet. So, and now don't get me wrong. We always have sublease market space on the market because there's a company growing. There's a company decided they want to move to another location. I mean, before COVID hit, we had, I think 5 million square feet of sublease space available, five or six I'm like that. So we've always have sublease space available, but the problem is, is that that's increased dramatically. While at the same time, the demand for office space has fallen through the floor. And so we have this term called absorption. Absorption is nothing more than this. At this point in time, we've got, let's say a hundred million square feet of space occupied.

Bob Gibbons  (13m 44s):
At this point in time, we have 105 million square feet of space occupied at that change of 5 million square feet is positive absorption. Well, it can go the other way as well. And it has. So since COVID started, we're about three and a half million square feet negative, that means companies that have least inspiring, decided not to renew or decided to take less space. So office spaces is hurting industrial space. However is the darling industrial space is doing great. In fact, rental rates went up by about 18% DFW from a year ago, quarter, and we have one client that has a sublease for, for industrial space right now.

Bob Gibbons  (14m 24s):
And we are getting so many calls for that. It's unbelievable. And if my client had already vacated space, we could at least to sublease that five times over. But because they're still there, it's a timing issue, which is the only reason we haven't subleased.

Tom Bronson (14m 39s):
Wow. That's a, that's amazing. I hadn't really thought about that, that component of the market. So the whole situation in California, why, why am I not surprised that that is the, the, that that's the state where that came from, right? And, and what's the incentive for people, even if they can pay what's the incentive for them to pay. They know they can't be evicted. What a, what a dumpster fire that is. So, so thank you for explaining absorption. Cause that's always kinda been a mystery to me. So, so I guess reflecting on what you're saying, it really depends, you know, how has it impacted the commercial real estate market?

2 (15m 20s):
It really depends on what type of commercial real estate we're talking about.

Bob Gibbons  (15m 25s):

It does. And the one thing I will tell you an office, which is where we work the most 70 to 90% of our business is going to be office in any given year or 10 to 30% industrial, the office market right now, rental rates are soft. So while landlord, let's just say a landlord was previously quoting $25 a square foot for rent. They may still be charging the same thing or quoting the same thing, but then they may be trying to find ways to give the land that the tenant incentive and yet not reduce what's called the face rate. So for example, we have a client right now, we're negotiating a deal with Atlanta is quoting 30 bucks a square foot.

Bob Gibbons (16m 8s):
We got an offer at 26 bucks a foot, but in addition to that, they gave us five months of free rent and they gave us $10 a square foot for improvements. But if we don't spend any money on improvements to the space, we can convert that to free rent, to rent credit. So the net effect of all that was that a $30 face rate ended up being more like a, you know, 20, $24 rate at the end of the day. Now not all handlers are doing that, but that particular one was others are just saying, no, we're, everything's great. We have 93% occupancy. We're not reducing our rate at all. So it varies a lot by landlord.

Tom Bronson (16m 48s):
Interesting, interesting. So, so, you know, a lot of people have converted to working from home and people are having to get used to zoom calls, right? And, and we've pretty much settled into that now. And I think a lot of companies have started to realize that, Oh my gosh, we can actually operate remotely and not have to have everybody in the office, but what's your prediction on whether companies will actually go back to the office of the future.

Bob Gibbons (17m 21s):
Again, answers will vary. We have clients that have already decided that they don't want to keep their office and they're trying to sublease their space. The bad news is there's no demand for office space. So we're getting very little traction on accomplishing that goal. So there are companies that are definitely going to give up their office space and work from home. There are other companies though that have told us, yeah, this proves that we can work from home, but it also proves that we don't want to, we can't to get back to the office. We don't either feel like we are as productive. Although some people are saying they're more productive. Some people are saying, you know what? We just miss being around our colleagues, we're lonely at home or the situation at home is a problem.

Bob Gibbons (18m 4s):

Let's say you have two spouses that are both working remotely and you have one or more kids that are also going to school and a house that was not set up for that. That's a big problem. And so a lot of people are anxious to get back to the office. So I think it's going to be all over the board. I think we'll see people that will have a hybrid model where some people work from home. Some people work from the office and we're, we're seeing some clients that are saying, look, our lease expires and we want to go ahead and do a five or 10 year lease right now. And of course we're, we're advising a lot of people just do a one year deal because one, maybe you need to stabilize your employee base.

Bob Gibbons (18m 45s):
You need to stabilize your client base, but maybe it's just, you know, let's just wait until the landlord start feeling more pain and are going to get a little bit more real on their rental rates. And so we've done quite a few one year, 18 month extensions kicking the can down the road. But, but if there's any money that has to be spent for improvements, then that's not really a reality. We have one client right now that wants to spend a lot of money. They're coming off of a 10 year lease. If they stay where they are, they want to spend a lot of money to rearrange things, freshen up and make it look good again. Or they will move. In which case all that new construction has to occur in the new place moving costs.

Bob Gibbons (19m 24s):
So they will likely have the landlord give them a pretty big allowance for improvements. In which case the landlord is going to require a longterm lease. But this client will likely have to spend a lot of their own money on top of what the landlord spends to get the space to the level they want, in which case they want a longterm lease. Cause the last thing you want to do is spend, you know, 60, 80, a hundred dollars, a square foot for improvements on a one to three year lease. And then what do you do at the end of that? Do you leave? Do you moved here? I mean that could potentially have a, a gargantuan negative impact on the balance sheets and the P and L's, if you're spending that kind of money and not have a longterm lease.

Tom Bronson (20m 5s):
Wow. Yeah, I've, I've been educated on that through the years. And some of my business deals, you had mentioned the, the, the sublease market, just a quick story. And my last company Granbury, it's unfortunate that you and I didn't really know each other back when we did this deal, but we were looking for new space. We had about 10,000 square foot building, but we needed to double our size. And we had pretty much given up hope of finding kind of the perfect solution. Cause we didn't want to move far out of our little

bubble. You know, the comfort zone, we wound up moving seven or eight miles from where we were, which is, which was a burden on some employees, but better for others.

Tom Bronson (20m 50s):
And, and we wound up subleasing, basically the better part of a, of a building because a big company had leased it and then immediately abandoned the project and they had a 10 year lease. And so they had nine and a half years left on that lease. And so we wound up subleasing that from the same people that leased it originally, they got the sublease on it for us. And then I heard, after I sold the company, we kind of rearranged things, the new, the buyer who bought our company rearranged and went into a smaller space and they subleased and other piece of it.

Tom Bronson (21m 29s):
So, and I think they went through the same group on that. So, so the, the tenant rep in that case got paid like three times on the same space, which is awesome. I love,

Bob Gibbons (21m 41s):
Yeah. They're good for the tenant rep, right?

Tom Bronson (21m 44s):
Yeah. Sorry, I didn't know you back then. Bob

Bob Gibbons (21m 47s):
know the one thing I will say though, Tom, is that we always start with the goals and objectives of the company. I mean, just like when you have an engagement with a client, I'm sure you start with the corporation's overall goals and objectives. So we do the same thing and we tell people, look, if your goals and objectives for the company can be satisfied by working from home. Do so don't spend the overhead just for the fun of it. And you know, I've had clients that have said whenever we start talking and I say, well, do you have a lot of clients come into your office? No, we don't have anybody to come to the office. I'm like, okay, then I'm not sure I understand. Why would you want to go in, let's say uptown, where you're going to spend anywhere from 40 to $60 a square foot, when we could go into downtown or into Debell on Morin, you know, whatever, a central expressway for half the cost.

Bob Gibbons (22m 33s):
And, and so the answer, sometimes it is, well, because I need that kind of a building to attract the kind of employee I want. Okay, fine. Or they say, you know what, because I can afford it. And that's just what I want. The answer doesn't really matter to me. It's

just, I need to understand that and what the motivation is for the client. So then I can find the real estate that fits and helps to support and achieve those goals and objectives instead of just going out and trying to find a real estate deal to do a, you're probably going to do the wrong deal if that's where you start. So always start with the goals and objectives.

Tom Bronson (23m 7s):
That's brilliant. I like that. And you're right. That's how we operate. You know, we try to define where it is they want to be, and then we can help them get there until we can actually extract that information from them. It's a random walk in the woods. Right. So that's, that's perfect. What, what, what do you, what is your forecast for what's going to happen with rental rates in the, in the near and, and Rella, you know, midterm, I think that

Bob Gibbons  (23m 34s):
Office and retail they're going to go down, which is why we're telling people to do the one year to 18 month extensions. If they can, if the landlord will allow it, sometimes some won't. I mean, we've, we've had two situations where we've asked for one year deals and the landlord said, no, you gotta do a three year deal. And in that case, we've come back with an 18 month request. And the landlord said, fine, we'll do the 18 month, but it's going to be at a higher rate than if you do a three or five year deal. So flexibility, cost money. So if you want the flexibility, you may have to pay a little bit more in the interim, but if you have to pay an extra buck, a square foot, buck 50, do it. Cause I believe rental rates are going to be lower than that.

Bob Gibbons  (24m 17s):
Then, you know, they're going to drop more than that over the next 12 to 18 months and re retail. I think they'll definitely come down as well. Although we don't really work in retail, industrial, it's not going to come down. It's probably going to go up. I mean, eCommerce is driving that like crazy, depending on whose numbers you look at for every billion dollars of additional eCommerce sales, there's another 125,000 square feet of space needed in the market for industrial buildings. So there's a huge amount of demand for that. And God forbid, you want to buy an industrial building. It's, you know, it's almost impossible to find buildings to buy right now.

Bob Gibbons  (24m 59s):
And if you do the rental or the purchase prices are really, really high relative to what they used to be. And, and so while it's usually we may get to this later, it's usually more expensive to lease than to buy long run. You know, people should try to buy if they can,

but there's a lot of reasons why that may not be something that makes sense for the organization.

Tom Bronson (25m 20s):
Yeah. We're definitely going to touch on that after the break, but before the break, you you've already hit on this, but I want to drive this point home a little bit. What advice would you give to business owners if they have a lease expiring in the next 12 to 18 months, when should they be talking about it and what, what should they be doing?

Bob Gibbons  (25m 38s):
You know, I would say if your lease expires in the next six months, trying to a one year deal, extending it beyond the end of the X, the six months, you know, expiration date, if it's farther in the future than that, however, I would just wait. Now there's, there's a time period in which, you know, a window, which is sort of the sweet spot for when you can renegotiate with the landlord. You want to do it early enough to where you feel comfortable that you're not too far out in the future for the company goals and objectives, to be clear, but you don't want to wait too long because if you get too close to the end of the expiration date, then the landlord starts realizing you don't have time to move, especially if any construction is going to be necessary.

Bob Gibbons  (26m 25s):
So, you know, it sorta depends on the size of the deal, the kind of company it is, you know, maybe even the area they want to be in, et cetera. And, and so, you know, I would say talk to your advisor, which you must have an advisor. First of all, of course, hopefully that's us, but if not, you know, I have somebody that's an exclusive tenant representative representative, talk to them, figure out a strategy right now what we're doing is we're telling clients, you know what let's, let's, let's say you have a renewal option that requires six months notice to exercise. You don't want to exercise a renewal option right now, let that date pass, let the landlord get a little bit nervous, then go to them and start negotiating and see what they're willing to do.

Bob Gibbons  (27m 11s):
But you almost never want to exercise a renewal option in any market, but certainly not in this market.

Tom Bronson (27m 19s):
So, so at the end, you really, you need to be negotiating that before kind of that 90 day Mark, is that what you're saying is, so if your lease expires in 90 days, you need to have been on it already. Is that right?

Bob Gibbons  (27m 34s):
It depends on the size of the space. I mean, if you have, you know, three or four, two or 3000 square feet or less than 90 days is probably okay, because you can actually go out and find space and move within 90 days if you're really on it. But the average deal say the average deal for under 10,000 square feet takes about six months under normal circumstances to find the space, to get the lease negotiated, to do any construction necessary, to move them so six months and that's, that's really being on your game. So only if you're small, would I wait until three months, six months to nine months. And depending on how big the space like we're working with a client right now, that's over 60,000 square feet.

Bob Gibbons  (28m 18s):
You know, we're 15 months out from their expiration right now, and we're already working hard on it because we know that the bigger the company, the more time it takes, the more levels that it has to go through approvals. And also just the construction process can take quite a long time. So to realistically put the landlord into the position of having to compete for their business, instead of just assuming they're going to renew, we need to start early enough. And so it just really varies based on, on the client and size of the client.

Tom Bronson (28m 50s):
I almost learned lesson the hard way. One time bought a business. We'd been a, we actually bought the business from not the landlord, but the, but the management company that was managing the space and, and we had a decent relationship, you know, we had, we had basically taken over their lease and then we, we had an option to renew, which we did and we extended that for a year. And then we were getting toward the end of that and I wanted to extend it again, but I was kind of lackadaisical about it. Right. You know, just we're, we're gonna renew one more year. We were sort of getting squeezed in the space. It wasn't a big space.

Tom Bronson (29m 31s):
I don't want to say that. Gosh, at the time it was, you know, probably three, 4,000 square feet. And, and I just let it go until about 35 days before the lease expired. And I just called the landlord, you know, Hey, decided I wanted to just, let's, let's renew this again for another year at the same re you know, we're going to do a few things. We're going to paint. And, and a few things we'll pay for that out of our pocket. And they said, well, you know, the, the going rate in that you you've had an advantage rate for a long time. And,

and we have some new rates for you. And I said, okay, well, what are you, what are you talking about?

Tom Bronson (30m 12s):
And he basically doubled my rates on the spot. And I said, well, look, you know, I wanna, I want to negotiate this and let's come up with a, with a strategy here. And he goes, well, if you want to stay in the building, that's going to be the rate. And of course from his perspective, he had me, but over a barrel, right. And it p****d me off so much that, that on my way, home, that afternoon, I was driving through grapevine. My office in Lewisville, I was driving through grapevine and a building that I hadn't paid any attention to before had a, for lease sign on the side of the building with a telephone number. I literally punched it into my phone.

Tom Bronson (30m 53s):
Right. Then I called it, it turned out to be the cell phone of the owner of the building. And I said, Hey, I saw your building is for lease. I'd like to have a look. When can I, when can I do that? And he said, well, I'm here right now. I just whipped the car around, drove in, talk to the guy. He was easygoing, you know? Yes. And things we can do. We'll give you some, some improvement money. And, and I know you want to do some things and, and fix it up. It was not in great shape. And, and we literally signed a lease the next morning. And I had a 30 day clause in my lease. I gave notice on the 30th day to my old landlord, he felt like he had me over a barrel, but we literally negotiated that lease overnight.

Tom Bronson (31m 42s):
And we moved three weeks later and ended all the construction that needed to be done. And so I learned my lesson. I realized that I needed to negotiate in advance of those things coming up. So, so we're talking with Bob Gibbons. He is a real estate expert in principle at Riata. Let's take a quick break back in thirties.

Announcer (32m 4s):
Every business will eventually transition some internally to employees and managers and some externally to third party buyers, mastery partners, equips business owners to maximize business value so they can transition their businesses on their terms. Using our four step process. We start with a snapshot of where your business is today. Then we help you understand why you want to be and design a custom strategy to get you there. Next, we help you execute that strategy with the assistance of our amazing resource network. And ultimately you'll be able to transition your business on your terms. What are you waiting for more time, more revenue. If you want to maximize your business value, it takes time.

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Tom Bronson (32m 55s):
We are back with Bob Gibbons principal at Reata real estate Advisors, and tenant advocates. And we're talking about the current situation in commercial real estate. So before the break we talked about how about rates in the current market? Let's change gears a little bit. I know many entrepreneurs who invest in commercial real estate for their own business. Are there advantages to owning your real estate versus leasing your real estate?

Bob Gibbons (33m 28s):
Yeah, without a doubt, the first and foremost advantages that usually when you look at it over the longterm, it's cheaper to own than to buy. Now, we look at things very differently when we're looking at a building to buy versus lease for a user, who's going to occupy the building than if it were a pure investor. So appear. Investor's going to look at that and say, Hey, we need a certain return on investment and how much downtime are we going to have it for? The next tenant moves down how much money we're going to have to spend on improvements. And it's a whole different analysis. Whereas in corporate real estate, you're saying, all right, how much it's going to cost me to lease this building? And how much does it cost me to buy the building?

Bob Gibbons (34m 10s):
It's a cashflow out question. And so we have a tool that we use. That's a 10 year cashflow where we predict what the outflow of cash from the business to the real estate is. If you leased the building on a 10 year basis, and then we did the same thing for owning it, and we'll make assumptions on, are you going to finance it? If so, how much you're putting down? What is the interest rate? I mean, a lot of things are you matching money for improvements and we just run the numbers and just let the numbers tell us. And at the end of the, of the spreadsheet, it says, you can buy this building for X percent of leasing it. And it's almost like almost always 70%, 80%.

Bob Gibbons (34m 52s):
So 65%. So you're basically buying a building for 65% of the cost to lease it. Now we ignore appreciation and we do that intentionally because it's cheating. If you add appreciation, because, you know, if you're going to say, yeah, this building is gonna appreciate 5% per year. Well, it's a million dollar building. That's $50,000 a year. And that

that's just cheating, because over a 10 year period, that's $500,000. It's always going to look like the best deal, but what if that appreciation doesn't occur? So we ignore appreciation. It's there. If the tenant wants to play with that and the client wants was play with that number and see what it is. And then one to 3% appreciation fine, but it always makes it look too good.

Bob Gibbons (35m 36s):
And, and, you know, but we've seen times where the market actually goes to the wrong direction and buildings fall falling value. I've been in the business 37 years. So I'm currently in my fourth cycle of downturn in the economy and in real estate. And so, you know, you don't want to assume that everything always goes up. And so that's one advantage is the value. The outflow of cash is one thing. Secondly, you get to sort of dictate your own terms, if you will. You know, after the answer to a landlord that, you know, may want to try and increase the rent at some point in the future, the negative of that is that you have to manage your own building. So it depends on the kind of building, in some cases, you're managing a lot of it anyway, as the tenant, depending on the kind of property.

Bob Gibbons (36m 22s):
So, you know, there are definitely advantages to it. There's one downside to it that some people find is that they'll say, well, I don't want to be in the business of owning real estate. I don't want to be a landlord. If they're growing quickly, they're going to say, well, I don't know how big I'm going to get. I don't want to buy and sort of be stuck with an old, in an ownership situation. That's kind of in this number, because if you own something, you can sell it any time. Whereas your friend Lee's, yeah, you can sublease it at any time, but it's, that may take a while and it could take a little while to sell. But my experience is that in most cases you can sell it faster than you can sublease it.

Bob Gibbons (37m 3s):
And so being stuck in an ownership situation is often not as big a deal as being stuck in a lease that you no longer need. Like in the situation you were talking about nine and a half years left on lease,

Tom Bronson (37m 15s):
Right? That makes sense. It is complicated. And we typically advise our clients that want to own their real estate. I'm really glad to hear your model for that. That's a, that is a, a great way to look at it. I think the pre the appreciation of the building, it can be misleading. So, so I, I agree with the process of leaving that out. We do typically always advise clients that are, that own their real estate, or, or want on their real estate to set up

a separate corporation or LLC to own the real estate and lease it back to the company. There are some tax advantages to that, but, but more importantly, you can separate the business from the real estate when it comes time to actually transition the business.

Tom Bronson (38m 4s):
What if you have a buyer that doesn't want their real estate that wants to buy the business and take it elsewhere? Well, then you still have an asset that you can sell and take another bite of the Apple, right? Or sometimes you have a buyer that wants to buy that specifically wants the real estate and the business. And so you can package it and have double transaction at the same time, but then there's kind of the third option of what you sort of touched on there. We actually have a client who buys a lot of real estate developers develops real estate for their own purpose. They have, they put a business on that real estate, but then occasionally sell the land in order.

Tom Bronson (38m 44s):
So they buy a piece of land for let's call it a, a million dollars. The land value goes up in the area that they're in. They sell it for $2 million that pays for not only that land pays off that land and the building that sits on it, but it also allows them to go out and buy more land and do the same thing. And so there's all kinds of creative things that you can do with real estate.

Bob Gibbons (39m 10s):
The other advantage in the scenario you just mentioned is that if they're only selling the land and they continued on the building, they can get the depreciation on the building, but you can't get any depreciation on land. So if they do it that way now a lot of times you'll do, what's called a sale leaseback where the owner of the building, the business owner, and that also owns the building will sell them property, the building on the land, and then lease it back. And it's basically a way to raise money. So maybe they can sell that on a bond equivalent yield that we call it where they basically say, you know, if I can go out and borrow money through floating a bond at, you know, 6%, that's what the, the return on investment that the buyer of the building is going to get in the form of a lease payment.

Bob Gibbons (39m 53s):
So this is what Walmart does. This is what a lot of the, a lot of the buildings that you see that have somebody's name on the side. They don't actually own that building. We'll buy the land, they'll build the building, they'll sign a lease with themselves and then sell the building to an investor it's mailbox, money to the investor. They have absolutely no risk whatsoever, other than the risk of Walmart blowing up and not being able to pay the

rent. Well, how worried are they of that? Not at all. So that trades at a very low percentage return on investment cap rate, we call it, whereas something that doesn't have Walmart credit is going to trade at a higher interest rate, therefore, a lower cost,

Tom Bronson (40m 30s):
Right? Yeah. I'm sure that there are many corporations that do that. I just happened to know, because I grew up in North Carolina and I, the executives at Lowe's home improvement, I went to my Alma mater and that's what they do. They they'll buy a piece of land, or they'll actually, they've got real estate people that go out and buy the land, develop it with the building on it, and they'll do a 99 year lease. I don't want to own the real estate. And which is an interesting thing, you know, when you think about it, they're they're, that blows my mind, but, but smart people have figured out that there are some advantages to doing that. And so, so I'll let them keep going to do that. I guess when we get the Lowe's, then we'll do the same thing.

Bob Gibbons (41m 12s):
I think the biggest issue there is are you making more money as a return on an, on equity in the business or in the real estate? And so a lot of reasons, one of the reasons why a lot of people don't want to buy is because they want to use that equity in the business to grow the business, because they're going to get a higher return on that than they will in real estate. The thing with Lowe's and home Depot and such, they're making money on a real estate transaction because they're buying the land and developing the building. And let's say that whole thing costs $175 a square foot. Well, they sell the, the building, let's say they sign a $15 a rental rate, but they sell it to somebody on a 5% cap rate.

Bob Gibbons (41m 54s):
Well, that just sold for 300 bucks a foot. So they just now made $125 pop just on the real estate transaction, plus they're, they've got the business. So it makes a lot of sense in that situation, but a lot of smaller businesses don't have that much capital where they can do both.

Tom Bronson (42m 11s):
Sure. Yeah, exactly. Exactly. So, so as business owners think about this is now a good time to buy instead of lease in the current situation,

Bob Gibbons (42m 22s):
You know, that's in industrial, I would say yes, if you could find the property to buy and office, I would say probably if you find a steal, great, but most owners have not yet been

willing to take the hit and, you know, say they paid $300 a square foot from their office building. And now, you know, somebody comes along and says, I'll give you two 50. Are you, are you going to be willing to realize that $50 a foot loss, a lot of people are not. And as long as they have the wherewithal to hang on and continue paying the mortgage, they may do. So I actually know of a building on the toll tollway right now that is a brand new building that's been built.

Bob Gibbons (43m 3s):
The interior hadn't even been finished out yet. And they're trying to sell it for $11 million because you know what, they don't need it. And, and so they're basically willing to just break even and get out from under it, just so that they don't have to continue funding the mortgage on that much less spend the money on improvements. Yeah.

Tom Bronson (43m 23s):
Wow. Wow. So that, Hey, there's an insider tip. If somebody is looking for a building on the tollway, then, then we got a steal for 11 million bucks. There you go. So, so if you know, we do talk and we work with a lot of people who are thinking about selling their business. And so if, if someone's thinking about selling their business, what advice do you have to give them related to the space, the company, okay.

Bob Gibbons (43m 50s):
If they are leasing their building, leasing their space, then I would say, the first thing you need to do is talk to your real estate advisor or your tenant rep and make sure you understand how the landlord can get in the middle of your deal to sell your business. And what I mean by that is that Lease's typically have, what's called an assignment and subletting clause, and that gives the landlord the right to approve the subleasing or these, the assignment of their lease. And they can say no. So I'll give you an example. In 1996, when I was on the landlord side still, I was an asset manager and we had a tenant in a building on the tollway. And the buyer of that business called me up and said, Hey, Bob, on buying XYZ company, we're closing in two days, I need you to sign a consent to assign the lease.

Bob Gibbons (44m 44s):
And I was like, Oh my goodness, you, why, why are you just now calling me? I mean, first of all, the lease says, I have 30 days to make that decision. And, and so, you know, that could delay your closing. And then on top of that, I don't know if they're going to say yes or no. So this was a time in the market where that tenant was paying 14, 50 a foot for rent. And we were quoting 22 for rent on new leases in the building. So guess what? The landlord not only had the right to approve the deal or not. They had the right to terminate

the lease. So it's what we call a recapture clause. So the landlord, the tenant reaches out to the landlord says, Hey, would you approve this assignment or sublease?

Bob Gibbons (45m 26s):
A landlord can say, you know what, thank you. I'm just going to take the space, get out. So in that case, that's what the landlord said. So I got to deliver that news. And the buyer was a savvy guy. He had some real estate experience and he said, all right, Bob, at what rental rate can I stay? And of course we anticipated that. So we ended up, we had agreed that we were going to give them a discount. We weren't going to give him totally so 1850 a foot. So an additional $4 per square foot per year remaining on the lease term, it was the equivalent of $60,000. And so he went to the seller of the business and said, Hey, seller, this is your lease. You should have known about this. You should have anticipated this.

Bob Gibbons (46m 5s):
We should have been talking to the landlord weeks and weeks ago, you're going to have to drop your pro purchase price by 60 grand, or I'm not doing the deal. And he did it. So that was 60 grand right out of his pocket, just the landlord reached in and grabbed that money. So, you know, whenever we negotiate a lease, we're always trying to negotiate any kind of recapture or termination option for landlord out of lease from the beginning. We don't want the landlord to ever have that, right, but we can almost never negotiate out of at lease their ability to approve or reject a sublease or assignment. So make sure you're going to the landlord early. You're talking to them, letting them know what's coming, trying to give them as much information on the, on the buying entity as possible.

Bob Gibbons (46m 50s):
If they're going to continue using the space, the landlord has a vested interest in being cooperative in that situation, because let's say you sell it to a strategic buyer that does not need the space. Well, that space is empty. And the landlord knows when that space, that lease expires that tenant is not going to renew under any circumstances. Cause they're not even in the occupancy, but if there's a tenant, that's a, a buyer where they need to keep the space. Well, the landlord wants to cooperate as much as possible because there's a chance that that company is going to still need the space when the lease expires. And, and so helping the landlord make the decision early and conveniently given them all the information, I need, financial information, et cetera, et cetera.

Bob Gibbons (47m 34s):

That's the number one most important thing that you should do if you're thinking about selling your business,

Tom Bronson (47m 39s):
That is brilliant advice. I could not have delivered that any better myself. Cause we deal with this kind of situation all the time. And I, although I've not heard of situations the way you described it, that makes perfectly good sense. And that even causes me to think, okay, in our process, that's something that's, that's a little bit more granular. We need to dig deeper into those things. As people are thinking about selling their, their business. So, so as we kind of start coming around the bend here to the, to the final stretch, what sets Reata apart from other commercial real estate firms?

Bob Gibbons (48m 18s):
Well, for one thing, we are purely tenant rep focused. We do not represent landlords. And so that eliminates conflicts of interest. Now most of our competitors, especially the big companies that you see out there, they try to be all things to all people. And so there's some of them that will own the building themselves. They will have the management company that manages the building, the leasing company that leases the building, but they also have a tenant rep division. So they're representing tenants. They're going into the building. They may have had a broker that bought or sold the building. They just have their hands in all pieces of this. And so at the end of the day, if you're the tenant or the owner or the whatever you got to really ask yourself, is that really in my best interest, do they have my best interest at heart?

Bob Gibbons (49m 7s):
In our situation, we are purely tenant rep on every deal. Every time we never represent landlord. So we never have to ask yourself when I showed you five buildings and three of them are my listings. I'm going to get all the commission on three and only part of the commission on two. Can you trust my advice? I don't think you should. So I think it's tenants', best interests. Company's best interest to make sure they're aligned with it with a, an advisor who has no conflicts of interest ever, and not just on a particular end situation. So that's one thing that, that differentiates us, but we have the added benefit of my 20 years of experience on the landlord side that I have that landlord experience. I understand how landlords think, how they make decisions and what motivates them.

Bob Gibbons (49m 51s):
So you have the benefit of the, of the landlord experience without the risk of the conflict of interest. If I were to represent both parties.

Tom Bronson (50m 0s):
Awesome. So one last business question here, Bob, the, this podcast is all about maximizing business value to you. If we had one opportunity here to give one piece of advice, what's the one most important thing you recommend to business owners that they do to build value in their business?

Bob Gibbons (50m 22s):
Well, spend as little money as possible on rent or ownership of a building that you're not by. I mean that it's real estate is a necessary evil that is required to accomplish business goals and objectives. In many cases, that's all being reconsidered right now. So all I'm saying is that you don't don't spend more money than you have. So how can you best minimize that expense while maximizing the value and the return on investment from that? And, and this is going to sound incredibly self serving, but the best way is to hire a tenant representative to help you do that. Because, you know, if I'm going to go do my taxes, I'm not going to do it myself.

Bob Gibbons (51m 2s):
I'm going to hire an expert to do that. If I'm going to think about selling my business at some point in the future, I'm going to hire somebody like Tom Bronson because he knows things that I don't know. And, and so, you know, hire experts that know things that you don't know or that you don't have the time or desire to deal with. So, you know, our job as a tenant rep is to save clients money, save them time to give them expert advice. I mean, they typically sign a lease once every five years, the landlord is doing it thousands of times a year. So you're outgunned don't ever go into a negotiation where you're out, gun knowledge is power.

Bob Gibbons (51m 42s):
Make sure you have knowledge on your side. And the best way to do that in real estate is to hire somebody who has that knowledge and it's assignment a lot of other circumstances as well. So it's kinda like that

Tom Bronson (51m 56s):
Has a fool for a client, right? And so same thing in, in real estate. Don't, you know, it pays to have a professional out there. And frankly, I think for the most part, the, the fees that you get are fees that are paid by the landlord. So it does, you know,

Bob Gibbons (52m 13s):
Sort of, sort of the only reason, the only thing I'll say on that is that it's built into the rental rate or the purchase price and who pays the rent, who pays the purchase price,

the tenant or the buyer, right? So most people will say most of my competitors are a free service? Well, no, I'm not. I'm I get paid. I'm not doing it for free. I'm not a charity, but the tenant isn't painted directly. But more importantly, if you don't use a broker, it's not like the landlord is going to give you that money back. And more importantly, they're probably going to charge you more. When I was a landlord, it was music to my ears. When a tenant would come to me and say, Hey, I want to renew my lease. And they're not using a broker. I knew right away, I could get 10 to 20% better deal for the landlord.

Tom Bronson (52m 54s):
Wow.

Bob Gibbons  (52m 55s):
Then if they were represented, just because they didn't know the circumstances and the market conditions,

Tom Bronson (53m 0s):
That that is great advice to get, find professionals that can help you do that. So our long time listeners know that I always ask a bonus question at the end, and this happened forward to this all day, Bob. So I can't wait to hear your answer. What personality trait has gotten you into the most trouble Over the years being Jan I'll bet. I get a whole list, the answers to that, but what's the one

Bob Gibbons  (53m 28s):
being a smart ass. I'm kind of sarcastic and playful. And if I'm not making fun of you, I don't like you. If I'm making fun of you, I like you. And it was kind of funny when I was 23 years old, I, I went on a business call with a guy who is 70. And before I even got back to the office, he had called my boss and said, what are you doing? Sending that snot nosed kid down here to talk to me. And I was like, wait a minute. I thought it went well. I thought it was a great meeting. And my boss said, well, you know, sometimes you can be a bit of a smart ass. And I was really hurt by that. And I went home. I told Jan because we were already married, I got married young. And I told, and she goes, well, you know, you can be kind of a smart ass.

Tom Bronson (54m 12s):
You know, it's one thing to know that you're a smart ass, but then you have to find out through your boss and then your wife confirms it. Come on.

Bob Gibbons  (54m 19s):
I know some people don't learn.

Tom Bronson (54m 21s):
That's all right. Well, you and I share that trait, but that's probably not what gets me into the most trouble, although it does get me into plenty of trouble, no doubt. How can our viewers and listeners get in touch with you?

Bob Gibbons  (54m 32s):
And the easiest thing is to go to our website. It's Texastenantrep.com. So Texas is spelled out T E N A N T R E P as in paul.com or Bob at Texas tenant rep is my, my email.

Tom Bronson (54m 48s):
Awesome. Awesome. Well, thanks Bob. This has been so much fun and, and I actually learned more than I bargained for today. That was there's some great nuggets of information in this. Thanks for being our guest. You can find Bob gibbons@texastenantrep.com or you can find him on LinkedIn. I also encourage you to check out his new podcast, confessions of a recovering landlord, especially if you want to learn more about a real estate and, and understanding that marketplace, you can find it. I think wherever you find your wherever you got this podcast or wherever you find any podcast, and don't forget, you can always reach out to us. I am happy to make a warm introduction to Bob.

Tom Bronson (55m 31s):
This is maximize business value, where we give practical advice to business owners

Announcer (55m 37s):
On how to build longterm sustainable value in your business. Be sure to tune in each week and follow us wherever you found this podcast and be sure to comment. We love comments and we respond to all of them. And so until next time, I'm Tom Bronson reminding you to consider your options in a real estate while you maximize business value. Thank you for tuning into the maximize business value podcast with Tom Brunson. His podcast is brought to you by mastery partners, where our mission is to equip business owners to maximize business value so they can transition on their terms on how to build long term sustainable value and get free value building tools by visiting our website, www.masterypartners.com that's master with a Y mastery partners.com.

Announcer (56m 52s):
Check it out.

Tom Bronson (56m 53s):

That was perfect. I wouldn't make any changes on that.