Ask the Professionals

Business answers to pressing B2B matters

COMMERCIAL RE

How does the Oil & Gas industry impact downtown Denver commercial real estate?

Lindsay Brown
Tenant Rep
Senior VP

The oil and gas industry is clearly an economic driver in downtown Denver. Over 90% of oil and gas tenants in the metro area, along with those companies that support the industry, choose to office downtown. Like commercial real estate, the oil and gas industry is still very much a relationship industry.

The general consensus is that 20% of downtown tenants are oil and gas companies. This equates to roughly 6 million s.f. Additionally, like any major industry, there is a halo effect relating to all the ancillary companies that support the industry, such as law firms, accounting, and engineering firms.

According to a study done by Booz Allen and the Colorado School of Mines, for every one job the oil and gas industry produces there are 1.67 additional jobs created that support the industry. It could be argued with this metric that 10 million square feet or one third of the downtown office market is driven by the oil and gas industry.

To put this into perspective, the average office tenant in metro Denver occupies approximately 3,700 s.f. while the average oil and gas tenant occupies approximately 9,000 s.f.

There is no one industry that has a greater impact on downtown Denver commercial real estate.

JONES LANG LASALLE

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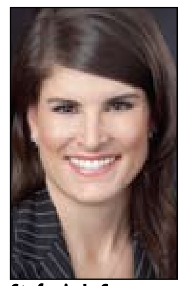
LAW

What do I need to know before I sign a commercial lease?



Stefanie L. Sommers
Associate
Otten Johnson

A lease encompasses more than the identification of space and rent for a specified term. The questions below cover a few of the many terms that parties may wish to address in a letter of intent (an "LOI") and, eventually, a lease.

- Who performs and pays for the initial build-out work?
- Other than rent, what expenses does the tenant pay? Is there an expense cap? How is the tenant's share of expenses determined?
- What is the permitted use? It needs to permit a tenant to operate its business.
- Is there a renewal option? If a location does well, a tenant will want the right to stay. How is the rental rate during the renewal term determined?
- Is an assignment of the lease permitted? Consider this if a sale of the business is anticipated.
- Parking and signage? These can be in short supply.

It is to the advantage of landlords and tenants to negotiate important business terms at the LOI stage before the parties incur time and expense associated with drafting a lease. It is also essential to make sure that the lease reflects the agreement. Involving a broker and/or attorney throughout the LOI and lease negotiations can help ensure that your business needs are met and that your lease reflects your deal.

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WEALTH

What Does P/E Ratio Mean?

Say you are interested in buying a small business. You ask the current owner a few basic questions. Of course you would like to know the annual profit the business earns. The owner responds that you could expect to earn $100,000 per year if you properly manage the business.

Brian J. Friedman,
CFA, President

If you offer to purchase the business for $500,000 (a Price-to Earnings or P/E ratio of 5) then you will earn a 20% annual return on your invested capital over time ($100,000 in earnings divided by your $500,000 purchase price). If instead you pay $1 million to purchase the business (a P/E of 10) your annual return will instead be 10%. The earnings remains the same, but the higher price paid reduces your rate of return.

The valuation process similarly applies if you buy shares in Coca-Cola or Facebook. Coke's current P/E of 20 implies a 5% annual return if earnings remain constant. Similarly, Facebook's P/E of 68 equates to an annual return of 1.5%. The complication revolves around future growth. You might be willing to pay a higher price per dollar of current earnings if profits in the future will be higher. The trick is to avoid paying too much. Paying attention to the P/E ratio can help you avoid overpaying when buying stock.

How can you avoid overpaying? If the P/E arithmetic looks attractive without heroic growth assumptions, then you may do well owning the shares. Otherwise, your chances are slim.

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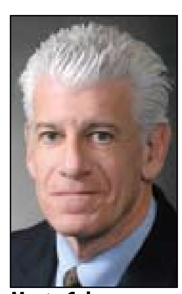
ACCOUNTING

What is one of the top issues keeping CEOs up at night?



Marty Cohn
Director
PwC

Talent. People are an increasingly valuable source of competitive advantage for organizations operating in a global economy. However, a mismatch between demand and supply of talent combined with chronic skill gaps means that getting (and keeping) the right people in the right places has never been more challenging.

In PwC's 15th Annual CEO survey, talent gaps and lack of key skills were cited as top business challenges. Considering that the true cost of losing key talent is equivalent to 6-24 months' salary and 27% of 'high potential' employees plan to leave their employer in the next 12 months, the impact on the bottom line of a inadequate "people strategy" could be staggering. Getting talent management right means less worry about talent problems and more focus on other business opportunities. Perhaps that's why, according to the CEO survey, 78% of CEOs intend to make a change to their strategies for managing people.

For those companies who have current talent retention, skill set gaps, and management issues or those that anticipate such issues in the future, analyzing and identifying the specific areas of talent management is a strategy that should be addressed immediately to ensure the best return on people investments.

pwc

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BUSINESS COACHING

Is The Owner The Best Person To Be Running The Company?

Michael S. Feinner
President,
Colorado Region

Just because a person is the business owner does not mean they are providing effective leadership for that company. In most cases where a business is underperforming the owner's expectations, the leadership direction and the vision for the company are not shared with and/or understood by the employees. Leadership is about painting a picture of the future through a vision and roadmap then sharing that vision both within the company and publicly. Without a clear vision for the future and a road map for how to get there many businesses have failed. Even after early successes development for the small to medium-size business owner can be a challenge.

People start businesses because they believe they have a great product or service and they have the passion and enthusiasm to bring their products or services to market. But as the owner's business grows, rather than being its greatest asset, knowing the technical work as the "technician" frequently becomes the greatest single liability. Company structure and management, marketing, financial issues and management skills quickly become the critical drivers for longer-term success.

Often, the change brought on by growth takes owners out of their comfort zone and leaves them with two options: Become educated in business-growth management skills and become leaders to work "on" the business rather than staying as technicians working "in" their business, or employ skilled leaders to lead the team.

ActionCOACH business coaching

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