

Commercial Property Owners Workshop



Tom Hardy, Palo Alto Properties

October 6, 2011

Agenda

- Leasing Your Property
- Selling Your Property
- Other Options
- Resources
- What the River Towns Program can assist with

Leasing

Leasing can be an attractive scenario, but you need to protect your risk



- Term: Typically 5 – 10 years
- Property Description: What's included?
- Build – out
- Security Deposit
- Taxes, Utilities, and Insurance
- Financial Due Diligence / Lease Guarantees
- Mortgageholder Approval

Leasing Example



Erie Post Office

- Term: 10 years, w/ a 5 year out clause
- Property: 6,000 SF
- Build – out: \$25 / SF allowance
- Security Deposit: One months rent
- Taxes, Utilities, Ins: All paid by tenant
- Lease Guarantees: None, government agency
- Lender Approval: Required

Leasing Lessons

- Take your time and be clear about terms and conditions up front to help prevent problems down the road.
- Do your research on the business and the owner that is going to be leasing from you.

Selling a Property and/or Business

Step one is determining what you are selling.

- Your property may be more valuable if your business is sold with it.
- Selling your business involves a different set of issues.

Selling Commercial Property

First Steps

- Get a copy of your deed – Need to be clear how ownership is listed in your deed and the property description.
- Have a preliminary title report done – Need to know of any liens, easements, etc.

Using a Realtor

Particularly for commercial property, you should strongly consider hiring a realtor

- Your realtor will help advertise the property.
- Your realtor will assist with the paperwork and manage the relationship with prospective buyers and their lenders.
- Commission rates for commercial realtors are 5% - 8% of the sales price.

Hiring a Realtor

Like anything else, make folks compete for your business

- Who are you most comfortable with?
- How are they going to advertise? Make this part of the contract.
- Commission rate and length of the contract are key elements.

Setting a Price

- Consider your motivation for selling and your timeline
- Understand up front your what your closing costs are likely to be (realtor commission, transfer taxes, etc.)
- Understand your mortgage or any lien payoff (this is why a title search is important)
- Look at recent transactions (your Realtor should be able to provide these for you)
- Consider your Realtors opinion

What Documentation Do I Need?

- Copy of Deed
- Preliminary Title Report
- Disclosure Statement
- List of improvements, age of mechanical systems etc.
- Income statement (for rental properties)
- Copies of any relevant permits
- Copies of any reports (environmental, structural)

Presenting Your Property

- First impressions matter / curb appeal can go a long way
- Remove clutter
- Painting and signage can make a big difference
- Don't forget about the grounds and parking area if your property contains those

Advertising

Put together a flyer or investor prospectus


- Size: Sq footage of bldgs & land
- Type: retail, lodging, etc.
- Location (what's nearby)
- Improvements
- Pictures
- Other selling features

IWE
LANGHOLZ WILSON ELLIS
Commercial Real Estate Services


Property Highlights

- Over 14,000 total square feet
- Excellent cash flow
- 100% occupied; CAP Rate of 8.2%
- 20+ parking spaces
- Directly across from the Castle Shannon 'T' station
- Walking distance to shopping
- Over \$250,000 in renovations in 2007
- Diverse mix of tenants, including Service, Retail, and Residential

**OWNER MOTIVATED
WILL LOOK AT
ALL OFFERS!**



Available For Sale
4-Property Investment
Castle Shannon, PA



**PRICE
DRASTICALLY
REDUCED**

**OWNER MOTIVATED
WILL LOOK AT ALL OFFERS!**

① 3825 Willow Ave	1st floor retail; 2nd floor apartment
② 3827-3833 Willow Ave	1st floor retail/office; 2nd floor 1 office & 7 apartments
③ 1001-1005 James St	4 apartments
④ 1007 James St	2 bedroom single family house

For additional information, contact:
Patrick Tracy, SIOR
(ptracy@IWE.com)
412-261-2200

600 Liberty Avenue • Suite 300 • Pittsburgh, PA 15222 • Phone: 412-261-2200 • Fax: 412-261-2075

CORFAC Member of the National Association of Realtors

Advertising

Look to have a local and national presence

- Local networks: Washington County Economic Development Partnership, Rotary, etc
- LoopNet: One of top online real estate sites
- Historic Properties: Markets properties > 50 years old
- BizBuySell: Largest online listing of businesses for sale

Considering and Offer

Remember, it's price AND terms

- Price
- Contingencies
 - Financing
 - Inspection
- Closing Date
- Hand Money Deposit

Considering an Offer

Cash Offer vs. Financing Contingency

- Generally a cash offer would be worth a price discount. Range varies but typically ~ 10%.
- There is significant paperwork and review associated with a commercial loan. That's not just the buyer's issue, that's your issue if you want to close.
- Timing is another issue. Commercial loans generally take 60-90 days to close.

Considering an Offer

What should I ask for with a financing contingency?

- Evidence of the source of funds for at least 20% of purchase price.
- Pre-approval letter from a bank with an amount.

Considering an Offer

What if the offer asks for Seller financing?

- Most people want to sell and be completely done. Seller financing means you will have a continuing relationship with the property.
- Seller financing can make your property more attractive to prospective buyers.
- If you agree to seller financing, protect yourself
 - Require at least 20% equity
 - Record a mortgage
 - Ask for a personal guarantee

Closing the Deal

Time is of the essence

- Take a deep breath, things will come up during the closing period that need to be addressed. At times you may feel like the deal is going to fall apart. This is not unusual.
- Pay attention to the timelines in the Sales Agreement
- Communicate regularly with the your realtor and progress and next steps.
- Have your documentation in order.

Sales Lessons

- The process can be somewhat of a roller coaster. Be prepared that it may not happen exactly the way that you would like.
- Pay attention to all of the details of the transaction. Ask questions. Use a trusted network of advisors.

Other Options

If I'm not ready to lease or sell, are there other options I could consider?

- Invest in your property using tax credits, grants, or low interest loan programs
- If you own a business, you may consider bringing someone else in as an equity partner

Resources and Next Steps

- The River Towns Program is building a resource guide for property owners
- There are handouts that list some local resources for financing, marketing, and business assistance