

THE ROAD TO A SUCCESSFUL SALE

Some building owners think that it's time to sell when they complete that final lease or reach a certain occupancy level, and in most cases that is true, but the road to a successful sale starts years before you decide to put the property on the market. Here are four things you need to consider if you plan to sell your property within the next 5 years:



LEASE TERM LENGTH

One of the easiest way to increase the value of your property is to extend the lease term of the Tenants. The longer lease term will lower the CAP rate which increases the price of the property. The up-front costs to the owner for that longer lease may be more expensive, as they can include larger leasing commissions, tenant improvement allowances, and rent abatement. However, in most cases, the value added will exceed the additional leasing costs. Be careful of termination options, if not written correctly, they can decrease the value of that long-term lease. There needs to be a penalty attached to the termination option along with a generous notice period to allow for marketing of the space before the Tenant vacates.

LEASE OPTIONS AND LANGUAGE

Investors don't just look at the rent and term, they also review the type of lease and how it is written. Is it a triple net lease or modified gross with a base year where the exposure to increased expenses and taxes are on the Tenant? Or is it a full-service gross lease where that exposure is on the Landlord? If the future exposure to tax and operating expenses is not passed through to the Tenants, a Buyer will have to plan for those future costs and will potentially decrease the purchase offer. Extension and renewal rights also need to be written carefully to not lock the future Landlord into terms that are not favorable to the property or limit the ability to handle expansions of existing Tenants.



CREDIT

The credit of the Tenant will have a large impact on the value of the property. If your anchor Tenant does not have a long business history or good track record, the value of the extended lease term will be discounted. Two buildings with the same income could sell for significantly different prices depending on the credit of the occupants. Make sure the lease signing entity has assets and a strong balance sheet. Securitize the lease with a letter of credit or security deposit if needed. A purchaser wants to know that if a Tenant was to default, there are protections in place.



PHYSICAL DUE DILIGENCE

If you are looking to sell because you don't want to spend the needed capital to improve the building, keep in mind that your price will be reduced by the capital costs needed, so it is best to address those items up front. Spend money on simple clean-up items, such as paint, carpet, and a deep clean of all HVAC and back of the house systems. If there are any major repairs needed, always get one or two bids to understand the scope and cost of the repair to assist in reviewing the underwriting of the purchase offer or to protect against a Buyer credit at closing.



These best practices are applicable at any stage of the sale consideration process. If you are considering selling in the next 5 years, speak to a sales representative to find out what should be done now to maximize the value of the asset down the road.

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