

COMMERCIAL REAL ESTATE

Who ends up paying the MOST for your property?

Generally, as a seller of commercial real estate, you have three motivations — transact as quickly as possible at the highest price with the fewest conditions.

Simple, right? In practice, it's a bit more complicated. Your offering, if properly marketed, will appeal to a number of different buyers. Below is a recap of each buyer type you might encounter and his pricing expectations.

Developer

Motivated by the highest and best use the property can generate, a developer views a parcel of commercial real estate in terms of its reuse, demolish and rebuild, or new construction. Critical in a developer's pricing is his calculation of the new construction's ultimate value, either its rent or sales price. Considered are things such as construction costs, construction time, city approvals, market trends and exit strategy. Generally, developers are well-heeled and can close once a city gives them approval. The price they will pay? Low.

Investor

If the building you are selling has income, great!

Where is that income relative to the market? How stable is the tenant? How much lease term remains? In simple terms, an investor will value the income stream based on his risk tolerance. The higher the risk, the lower the number he is willing to pay. Occasionally, an investor will buy a vacant building. In this case, the cost to originate a lease is formulated. Taken into account are market rents, downtime, concessions, improvements and broker fees.

The dollar amount of lease origination is generally deducted from the purchase price, akin to a car dealer who will give you a wholesale price (retail less the cost of refurbishment). The price he will pay? Low to low-medium.

Out-of-area occupant

Certain areas of SoCal are what I call “catcher’s mitts.” Meaning the natural migration of local buyers gravitates in their direction. Typically, this exodus occurs west to east as our basin developed in this direction. Orange County attracted buyers from Los Angeles, and the Inland Empire attracted occupants from Orange County and the San Gabriel Valley.

Geography like the Port of L.A. or the greater Ontario area also can have national appeal.

Folks looking east like the affordability and quality of construction. Companies forging a new Southern California location suffer from sticker shock. The price they will pay? Medium.

In-area occupant

These businesses are established within the community where your building resides. The chances are their labor force is close by, they may own a home in close proximity and they attend Rotary and the Chamber of Commerce meetings monthly.

Plus they don’t want to leave. The price they will pay? Medium high.

Neighboring occupant

Take all the components of an in-area occupant and couple those with a facility next door, and voilà. Add in some stickiness to his existing operation — extra power, excess parking, a use permit — and boom. The price he will pay? High.

Existing tenant

I’ve said many times: Your best buyer is generally your existing tenant. Why? He understands your building better than you do. He has found great utility in the location and improvements. His cost to move is huge. In some instances, your transaction costs are less by selling to your tenant, and your bottom line is enhanced. He also pays rent to you while you are closing the deal. The price he will pay? High to very high.

Black swan

Warning! These are rarer than a Ram’s Super Bowl victory. They happen but not often. Defined as a buyer with a unique vision, need or requirement that ONLY your property will fill, these “swans” swim in elevated waters.

Some recent examples: a brewery operator who bought an industrial building across from a sport’s venue; an investor motivated by a tax-deferred exchange;

and a church that sold its existing sanctuary and had a wad of cash to spend on a new location. The price they will pay? Off-thecharts high.

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Who pays the most for your commercial property? In the real estate world, a black swan is one who needs the property the most and right away, but it's also hard to come by.



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