# You want to sell ... but there's a problem

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Your commercial real estate is leased; you have decided that now is the time to sell the building. You've been advised there is an "occupant premium" to selling the building to a company that will occupy vs. selling the building to an investor who will collect the rents as a return on the price paid for the building.

So just how do you navigate these waters and sell the building to an owner-occupant – all while keeping your current tenant happy and in place until its lease expires?

In no particular order, here is what I recommend you consider:

**Your existing tenant is your BEST buyer.** I always recommend an owner approach the tenant and tell them the intent to sell.

Why? Because your existing tenant will avoid the cost of a move, a costly fixturization of a new space, a disruption of his employees, and is probably comfortable with the layout, amenities and location of the building.

However, your tenant may not want to buy the building. Publicly traded companies typically would prefer to lease commercial real estate to keep depreciation off the balance sheet. Also, your tenant may not be worthy of financing. Or, your tenant may foresee outgrowing the building before the next lease renewal.

Regardless, thoroughly investigate your tenant's desire to own your building.

**Lease term matters.** Generally, if your tenant has 18 months or more on an existing lease, too much time remains for the building to be attractive to an owner-occupant. The primary reason is financing.

Most owner-occupants finance commercial real estate purchases with Small Business Administration loans. SBA covenants require the owner-occupant occupy at least 51 percent of the building within one year.

So, with 18 months remaining on a lease, there is adequate time to find a buyer and conduct a sale escrow with an eye toward an ownership transfer within a year or less of the lease expiration.

**Consider the marketing process.** In order to obtain the highest value for your commercial real estate, list the property with a commercial broker and run a marketing process.

A portion of the marketing process is signage in front of the building and tours through the building with potential buyers. How will your tenant react to these things? If the operation currently housed in the building is sensitive to outside visitors, this could be challenging.

**Make sure your tenant understands what you are doing.** If your tenant elects not to buy the building, you must be very specific with him as to the potential outcome of your marketing process: You will sell the building to a company that will occupy the building when the tenant's lease expires, which means the tenant will have to move. Double-check your lease agreement to make sure you haven't granted an option to purchase or a right of first refusal to purchase to your existing tenant occupant

**Occupant premium, real or imagined.** Historically in Orange County, owner-occupants have been willing and able to pay more for a building than an investor who buys the building for the rental returns. However, these days, with so much investor money in the market chasing returns, investors will accept a smaller return.

Smaller returns coupled with rising lease rates have resulted in investor pricing quite comparable to owner-occupant pricing. If your tenant is adamant about renewing or has at least three years remaining on his lease, you may be surprised at the price the real estate will fetch if you sell to an investor who will not occupy the building.

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# Study challenges notion that debt-laden grads are drag on homebuying

## Report says those who skip college are the problem.

By GAIL MARKSJARVIS
CHICAGO TRIBUNE

Is college debt truly keeping a generation of young adults from buying homes?

That's been the popular storyline as people in their 20s have shunned the housing market since the housing crash. Economists seeking explanations for a change in behavior, and worried about a long-term drag on the economy, have theorized that the slowdown was due largely to a record level of student loan debt in the country – about $1.3 trillion. The narrative: Struggling recent college graduates can't buy homes and will continue to be deterred from buying because they are shackled with immense college loans.

But Susan Dynarski, a University of Michigan economics professor and fellow of the Brookings Institution, is challenging that argument in a new paper. She says that a surprising number of respected economists have adopted an alluring narrative of millennials unable to buy homes even though it's one built on flawed evidence that has been debunked by research done for the Federal Reserve Board of Governors more than a year ago.

The real drain on homebuying, she says, comes from people who haven't gone to college, rather than those who have graduated with debt.

While people fresh out of college have not been avid homebuyers in their 20s, she said data show that once people are in their 30s, they are buying at rates similar to the past. And this is true, she said, even if they have student debt.

She has been frustrated that the old narrative won't die. The initial impetus for the narrative came from a New York Federal Reserve study that linked record student loan debt with the absence of homebuyers. It was deficient because the researchers didn't examine who had gone to college and who hadn't, she said. Now, the Federal Reserve Board of Governors data go further, and she used that research in her own. She hopes, she said, to shake the election year rhetoric about student loans that is not based on anything tangible.

The real problem with student debt, she said, is not for people who complete bachelor's degree college programs and leave college with the $30,000 in debt that's average among those who borrow. Rather, she said, defaults on student loans are high among another group: students who attended community college or for-profit colleges for a while and dropped out with debt.

Further, the absence of homebuying is much more prevalent among people who never went to college, rather than those who did and left with college loans, she says. Even in their 30s, the nongraduates are sitting out the homebuying market in large numbers.

By the time people are in their 30s, the homeownership rate of college-educated people with loans, and those without loans, "is statistically indistinguishable," she said. Student loans typically are paid off in 10 years, so by their 30s many graduates are free of the debt.

"The striking gap in homebuying," she said, "is in the group of people who stopped their education with high school."

When students get college degrees their earnings are much higher, so they can pay off college loans and buy homes in their 30s, she said.

"Instead of worrying about college students coming out of college with debt, we should be trying to get more people to go to college because it pays off tremendously" and allows people to buy homes, she said. Over a lifetime the college graduate is going to make about $600,000 to $1 million more than the high school graduate, she added.