

## COMMERCIAL REAL ESTATE

# Before you sell, consider these five things

You've made a decision to sell your commercial real estate.

Reasons vary from seller to seller but generally involve a transition — a change in the market, the sale of a business that occupies the building, business growth that outstrips capacity, a loan that is due, an ownership squabble, or gravitation toward another investment.

Regardless of your reasons, most sellers focus on the commercial real estate's value as the central motivation. OK, I get it. However, before exposing your building to the market, I would recommend you consider the five things below.

## 1. Title search

A title company such as First American or Fidelity will typically open a free title order for you — preliminary commitment or "prelim" — in the hopes of insuring the title upon sale. Contained within the multipage document are exceptions or conditions to be met prior to an ownership change. Easements, loans,



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tax liens, mechanics liens, leases, and the nature of the building's ownership — LLC, individuals, family trust, etc. — are all detailed. You're interested in understanding any issue that could prevent a sale — such as a suspended LLC or an unsatisfied tax lien.

## 2. Building inspection

Some sellers allow a buyer to become more acquainted with the physical issues of their commercial real estate — such as the condition of the roof, remaining life of the air conditioning and heating, unpermitted improvements, or parking lot paving. I believe a seller should invest in a presale inspection, take a look at the recommendations and price accordingly.

## 3. Environmental survey

If your buyer borrows money, most lenders will require a Phase I environmental assessment as standard loan processing. Why, you may ask, should you invest money in a similar report? Fair question. The easy answer is to know, with certainty, your property is environmentally clean and will pass lender scrutiny. You might also save a bit of time if the buyer's lender can "rely" on the report and avoid duplication.

## 4. Evaluate loans

Back to the title report. Are any loans recorded against your property that have been paid in full? If so, they shouldn't appear on your report. Typically, this means the satisfied loan has not been reconveyed correctly. If the loans on title are in fact still active, carefully evaluate any pre-payment penalties that must be incurred if you sell the property.

## 5. Tax consequences

The time to understand how big a tax bite a sale will create is prior to placing the building on the market. Remember, several taxing agencies are standing in line, hands outstretched waiting to be fed. Included are the IRS — capital gains and depreciation recapture, the Franchise Tax Board, and the Affordable Care Act. Your situation may vary and there are ways to defer your tax bill, however. Please spend some time with your CPA and know how much will be left if you choose to pay the taxes.

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Sellers should invest in a presale property inspection and price accordingly.