COMMERCIAL REAL ESTATE

Your buyer doesn't care about your building updates

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Contributing Columnist

Akin to an automobile with a DVD player, a commercial building with certain features may not appeal to a buyer.

In fact, they don't care, won't pay for the renovation — and maybe worse — will exclude your building from consideration if the betterment exists.

Hmmm, weird you say.

"I spent a lot of money installing those solar panels in my parking lot. Who cares if the equipment consumes 10 spaces — my employees carpool or Uber to work."

Congratulations! You invested in an upgrade that made your building less desirable — even though you believed the value was enhanced.

So, what other improvements do buyers shun and to which sellers cling — with the expectation of a higher price?

Freeway frontage. Not an improvement per se, but an attribute that many owners see as valuable. Unless your buyer wants looks at 225,000 cars every day, he most likely will be unwilling to pay. In some cases, freeway visibility is a negative because of noise, debris, and transients that loiter. An exception to this rule is the retailer whose business can benefit from the exposure. Most others don't care.

Signalized corner. Similar to freeway visibility, a signalized corner causes traffic to pause in front of your location, which means your building is on a busy street. Great! But if your business isn't dependent on destination customers, you might just wish they whisk on by. An exception — which could bolster worth — is a property with a higher and better use, for example, a residential conversion in the future. Now, the signalized intersection creates some benefit and can generate more dollars.

Amount of office space within an industrial building. The building space — especially an industrial building where companies make and ship things — is the biggest merit disconnect between a seller and a buyer. Adding office space to an industrial building is a costly adventure >> permitting, construction, timing, new office furniture — and in some cases, $75-$100 per square foot. When a seller shells out that amount of money, he expects a return.

Unfortunately, rarely does the next guy see any benefit. The layout is wrong, the finishes are outdated, too much shop space is consumed, a second story was created with no elevator, and so on. If a buyer doesn't need the excess office space, he must pay to have it removed or move on to the next building without the problem. Certainly, the exception is the black swan that can walk in and use everything without any changes. He will see the benefits and gladly pay.

Assumable financing. Money is cheap and plentiful these days. Lenders are begging qualified folks to borrow. In many cases, a buyer can finance 90 percent of the purchase at interest rates in the 4's. Enter assumable debt. Chances are the assumable debt was written at interest rates higher than present and for less than 90 percent of the sale price. Thus, a buyer is better served in getting a new loan. An exception would be an owner carried loan — especially if the buyer can avoid the costs of an appraisal and loan origination.

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