



# 5 Tips

## to Selling your Commercial Property

Provided by Palisade Commercial Realty



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# 5 Tips to Selling your Commercial Property

Selling a commercial property is much more complex than simply ordering a sign and taking a few photos. Establishing a clear price strategy, understanding your potential buyers and marketing the property can all be daunting tasks. Here are five tips to assist in selling your commercial property.

## 1. ESTABLISH A PRICING STRATEGY

**Comparable properties.** A commercial real estate agent can run a 'comparable properties report,' which will indicate the price that similar buildings have sold for, the date of sale and proximity to your building. This will give you a beneficial impression of how the local market is behaving.

Taking a tour of competitive buildings will provide you with hands-on market knowledge for your property. A property tour is the best way to see what your competitors are offering in terms of lease rates, amenities and location. After studying your competition first-hand, you'll have a better idea of how your building measures up.

While sales comparables and property tours can be helpful, investors are more concerned about the ability of a building to generate income. This is useful because a comparable building may have more amenities and lower vacancies, but generate less income than your property.

**Property valuation.** It can be extremely difficult to find similar commercial properties for a true price comparison. Mixed use and large properties can make this task even more difficult, so this is why commercial property is best valued according to the building's Net Operating Income (NOI).

The capitalization rate of your property can be used as an easy way to compare your asset with others available on the market. The capitalization rate is the rate-of-return based on the expected income the property will generate (capitalization rate = yearly income / total value).

For example, if you buy a property that will generate \$60,000 per year and paid \$1,000,000 for it, the capitalization rate is:  $\$60,000 / \$1,000,000 = 6\%$ . Whether 6% is good or bad will depend on comparable cap rates in your area. If a majority of buildings have a 4% cap rate, you are in the lead! However, if they're at 7%, you may have an issue. In some areas of the county a 6% to 10% cap rate is very good, however, in other areas, like Southern California, as a general rule-of-thumb for commercial real estate investors:  $\pm 5\%$  cap rate is considered a 'good' return on their investment.

While the capitalization rate is an easy way to compare your property against others on the market, it should not be the sole factor in your pricing strategy. Other considerations such as growth or decline of potential income, or an increase of property value should also be measured.



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## 2. UNDERSTAND INVESTORS' POINTS OF INTEREST

Investors are interested in a set of selling points. Attracting the right buyer for your property will help it sell in a timely manner. Ensure your information is up-to-date and accurate, as it will come up at the negotiating table! It's much easier to negotiate a strong and favorable contract if your information cannot be disputed.

**Selling with vacancies versus no vacancy.** Investors who are interested in turnkey properties love 100% leased properties, especially when the tenants have established businesses with long-term lease contracts. However, if your property is plagued with vacancy, fear not! There are buyers who are interested in opportunities to improve a building's tenant mix and make improvements.

**Current tenants.** A rent roll provides a list of all your the current tenants in your property, their contract expiration dates and lease rates. The more established businesses with long-term leases will be more highly valued than unknown companies with short-term contracts. If you are having difficulty selling a property, be sure to analyze the tenant mix. If a few of your tenants are weaker than others, you may have to make some changes in order to sell the building.

**Clean up and repairs.** Even savvy investors are prone to purchases based on emotion. Good first impressions can be crucial to receiving offers. Consider sprucing up your landscaping, cleaning vacant spaces and making repairs. There is no reason to wait to until repairs are completed to place your property on the market; photos and descriptions can be updated after your improvement projects take place.

**Location highlights.** While location isn't the main focus for a commercial real estate investor, it is the number one concern for potential tenants. Be honest with the property's location highlights because something you perceive as undesirable may be a selling point to someone else. For example, while some tenants prefer a quiet setting, others thrive in high traffic areas. Note your building's most recognizable cross streets, its proximity to highways, public transportation, or other area retailers and traffic generators. An investor wants to know what potential tenants will be attracted to the particular location. Offering information about who currently occupies the space and what types of tenants are most successful can be an important selling point.

**Property highlights.** A thorough market analysis will give you a list of competitors and their amenities. Research the differences between competitive listings to understand their offerings compared to the sale price. Don't be too discouraged if your property has fewer amenities than others in the area. Your cap rate is more important to an investor than the property's bells and whistles. In fact, in some areas, keeping your amenities low will keep your costs down, which is a desirable trait for many commercial real estate buyers.

**Demographics.** Running a one-, three- and five-mile demographics report on your property will provide you with necessary insights into the surrounding population. Investors are interested in how tenants will perceive the surrounding demographics of a site. While many tenants prefer higher populations, others may prefer particular household income levels, age groups or property values.



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## 3. MARKETING YOUR PROPERTY

Potential investors need to know that your property is available before they can send offers. Don't get stuck with one form of advertising. Instead, utilize every marketing channel to reach out to many buyers.

**Online databases.** Large databases like CoStar and LoopNet can help expose your property to thousands of commercial real estate agents and buyers. You may want to consider integrating social media into your online advertising plan as well. The more people you can reach via the internet, the easier it will be to attract investors.

**Sales packages and other printed materials.** An effective sales package (or offering memorandum) can be a vital tool. Focus the content of the material on the property features that will appeal to buyers. A professional design will separate your property from the crowd that advertises with word-processing software. Attaching a well-made sales presentation to your online databases and using them for mailers will get your property noticed.

**Investors' points-of-interest:** Remember the selling points that buyers care about the most: net operating

income, cap rate, sales comparables, tenant mix, vacancy rates, property highlights, location highlights and demographics.

**Financial statements:** Including a pro forma income statement and rent roll will demonstrate the mix of tenants that the property attracts, and how much yearly income they can expect from the property. Make sure to tell your agent if you're uncomfortable making this information public; he or she can provide it separately and only to serious buyers.

**High quality signage.** Create large, readable and attractive signs to place on your available property. Signs should be visible from the street, use attractive colors, and display a phone number where you can be reached for enquiries about buying the property. Some areas may require permits or have sign regulations so make sure to talk with a commercial real estate agent before ordering signs.

An investor wants to know what businesses will be attracted to a particular property. The easier it is to find quality tenants, the easier it will be to get a return-on-investment.



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## 4. APPRECIATE DETAILS OF DIFFERENT PROPERTY TYPES

**Office:** While some businesses will prefer an affluent location with educated demographics, others will appreciate offices close to public transportation or lower income areas. Being clear about your location's demographics and the traffic counts in the area because different highlights will appeal to different buyers.

**Medical office:** The layout of a medical office is important to particular specialty areas. Neighboring practitioners such as nearby laboratory services and hospitals may also be important. Highlight neighboring providers in your marketing materials, since locations that are close to medical specialists, laboratories and hospitals are generally in greater demand.

**Retail:** Emphasize the area's demographics, traffic counts, accessibility and parking. Demographic information, including average income, ethnicity, average home prices and proximity to schools should be provided. Also, showcase neighboring traffic generators like super centers, grocers and banks. The busier the area, the better the location will look to buyers.

**Industrial:** Draw attention to your industrial building's proximity to highways, railways or shipping yards. Also, make sure to highlight the different zones and amenities your building has, such as docking areas, warehouses and office areas.

**Multi-family:** Be honest about the state of your duplex, triplex, quad or apartment complex as 'flipping' apartment buildings is as popular as purchasing turnkey complexes. Some buyers may prefer to do the construction work while others won't. Check out your competition and discuss the current market value of your property with an experienced multi-family agent.



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### 5. FIND A COMMERCIAL REAL ESTATE AGENT

It's difficult to do these things alone. If you're faced with the complications of selling your commercial property, consider finding a commercial property real estate agent.

When it comes to helping property owners sell their commercial real estate in the San Diego area, we can provide guidance, property valuation, comparable sales reports, targeted marketing, demographic reports, traffic counts and contract negotiations. Palisade Commercial Realty can provide a full range of seller representation services to local, national and international clients. If you need help to find potential investors, assistance with your pricing strategy or finding the appropriate buyer for your building, we have the expertise to support all of your commercial real estate needs.

### WHETHER IT'S NOW OR LATER PALISADE COMMERCIAL REALTY IS HERE TO SELL OR HELP YOU BUY COMMERCIAL PROPERTY

We will ensure that your properties receive maximum exposure through aggressive marketing techniques, a results-oriented philosophy, and a commitment to providing each listing with the tools needed to find a buyer for your property.

Our seller services include...

- Market analysis
- Consultation
- Portfolio evaluation
- Development of a high-quality sales package
- Visible signage
- Listing onto online databases
- Additional marketing materials may be available upon request

**(619) 794-0218 Call Today for a  
FREE CONSULTATION!**



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