CASSANDRA ECKERT

Beachfront Retreats, Residences, Commercial RE & Resort Style Estates

A PRACTICAL GUIDE TO:

SELLING COMMERCIAL PROPERTIES

COMPLIMENTARY GUIDE

BERKSHIRE HATHAWAY HOMESERVICES | FLORIDA PROPERTIES GROUP

HOW NICE TO

MEET YOU.

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We understand that selling a property in today's market can be challenging. While the market can fluctuate daily, properties are sold each week in our area.

Thank you for choosing to put your trust in us for the process of buying and/or selling your commercial and/or multi-family property. Every member of the Coastal Living Group team is committed to ensuring that ALL of your real estate needs are not just met, but exceeded! We've created this guide for your convenience and we hope that it will be a valuable resource. While the entire process is outlined for you here, please know that we will be staying in constant contact with you throughout the process. Your experience will be unique and we will adjust our service according to your wants and needs. Our focus is on your complete satisfaction.

We are here to help with any of your real estate needs, please don't hesitate to reach out!

> "We believe in creative expression, decisive initiative and massive action when it comes to marketing"

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WHY ARE YOU SELLING?

DECIDING TO SELL A PROPERTY

When engaging in the purchase or sale of commercial real estate (CRE) in Florida, numerous factors come into play. The considerations encountered by buyers and sellers often vary, and these concerns may also differ depending on the specific type of property involved. This guide aims to address overarching considerations for CRE transactions while acknowledging particular scenarios that may arise within different asset classes. While it delineates between the perspectives of buyers and sellers, it cannot possibly encompass every potential situation that may occur during a CRE transaction.

Each transaction is unique, presenting real estate professionals with new challenges regularly. This guide offers a step-by-step examination of a CRE transaction, spanning from its inception to its conclusion, to provide insight and assistance for all parties involved in navigating the complexities ahead.

This guide provides comprehensive advice on purchasing and selling commercial real estate in Florida.

Initiating the sales process can often be the most challenging aspect. When assessing the viability of a potential sale, a useful starting point is to inquire: "What is the motivation behind selling?" There are several potential reasons, including:

• The seller aims to liquidate and redirect the invested equity from the property towards other endeavors.

• The existing financing for the property is nearing maturity. Has the seller explored all avenues for refinancing or sought potential investors?

• The property is underperforming, possibly due to excessive vacancies or significant maintenance requirements.

If the sale doesn't involve cashing out, it's crucial for the seller to contemplate how these challenges might impact the property's appeal to potential buyers.

Use of Proceeds on Sale

There are strict time periods that must be followed to complete a 1031 exchange; if a seller is going to complete one, it must be ready to complete a purchase quickly. The process for purchasing the replacement property might need to begin even before the seller starts the process to sell the property. For more on 1031 exchanges, see our 1031 PDF Guide. Other tax considerations involve estate planning. Whether a seller holds onto the sales proceeds or reinvests through a 1031 or otherwise, it is good sense for a CRE investor to have an estate plan in place to protect against probate upon death and save on additional taxes, including estate taxes.

Engaging a Commercial Broker

It is important to engage a broker who specializes in commercial property, not residential property. These are two different skill sets. Brokers who concentrate on commercial properties have experience dealing with the complicated aspects of a CRE transaction including the review of property financial statements, market studies, and commercial appraisals. They understand rent rolls and capitalization (CAP) rates and are skilled at negotiating issues specific to commercial real estate. In selecting a commercial broker, look for one who specializes in the particular asset class being sold; a broker specializing in office buildings is not the right person to sell an industrial property. Some brokers also have better connections within the specific market where the property is located. Finally, the broker must have the capability to market on all major outlets, such as MLS, Crexi, LoopNet, and CoStar.

Preparing the Due Diligence Package for Potential Buyers

Every prospective buyer will want as much information about the property as possible before making an offer, so the seller must assemble a comprehensive due diligence package for interested parties. A good broker will be able to assist. The due diligence package should, at a minimum, include the following information:

· **Property financial statements.** These should include income and operating statements for the last three years and, if possible, pro forma statements going forward.

· **Rent roll, if applicable.** The rent roll should show the current rent and operating expenses (CAM) paid for each tenant, including escalations, security deposits held, original and remaining term of each lease, and whether there are any renewal options. Additionally, the rent roll should show if any tenant has expansion options, rights of first refusal, or options to purchase.

· **Maintenance reports.** Maintenance reports for the property should include scheduled, planned, and recently completed maintenance.

· **Schedule of material contracts.** Include those that can be canceled on 30 or fewer days' notice to the vendor or provider as well as those that must be assigned to and assumed by the buyer at closing.

· **Prior title policies.** Prior title should show the seller's insured ownership of the property. The buyer can use these as a base to order new title searches for the property checklist.

Use of Proceeds on Sale cont'd

- Include any existing surveys, such as topographical and as-built surveys of the property.
- Provide all third-party reports, including environmental and geotechnical reports, as well as prior appraisals prepared for the property.
- Ensure all licenses, permits, authorizations, and approvals related to the property are included.

Non-disclosure Agreement (NDA)

As a substantial portion of the due diligence package contains sensitive information, it is advisable for the seller to engage their attorney in drafting a Non-Disclosure Agreement (NDA) for potential buyers to execute. This straightforward agreement serves to acknowledge that buyers will receive confidential information before committing to a contract and obliges them not to disclose this information to third parties, except to their attorneys, accountants, and other essential professionals involved in evaluating the transaction. Furthermore, the NDA stipulates that these professionals must also commit to maintaining the confidentiality of the information provided.

Getting Ready to Purchase Property: Planning

The preparation for purchasing a property initiates well in advance of selecting a site and varies depending on whether the acquisition pertains to a land development venture or an established, operational project.

Land Development

· **Product type.** Many developers specialize in one product, ranging from single-family home communities to shopping centers to office buildings to industrial parks. Some very large development companies touch many asset classes and have different experts handling the separate products. However, there is one truth in land development. Not every property is right for every type of project; the type of project a developer wants to build determines what property to purchase.

· **Market studies.** Before looking for a specific property, a developer should conduct market studies to determine what geographic region will best support the project the developer wants to build. If the developer specializes in grocery-anchored retail centers, he or she should find what areas are in need of this type of shopping center, how many households currently exist in the area, and how many households are planned in the coming years that would be able to support such a center. Given the amount of time it can take to locate a property, design the center, get approvals, lease-up, and build the center, the number of houses coming down the line is just as important as the number of houses already in existence. A market study would provide this type of information to a developer and to a potential lender.

· **Area.** After reviewing the market study, the developer can determine what geographic area to focus on in selecting a site.

Land Development cont’d

Contact with local government. In narrowing down to a geographic area, and specifically, to a municipality, developers should have preliminary conversations with local governmental officials about the plans for the project, even if a specific site has not been selected. The developer should get a feeling for how the project will be received by the city. Will there be opposition because the project is high density or some other unpleasant use? What can the developer do to assure the city of the positive attributes of the project? These preliminary conversations help make specific interactions go smoothly when the developer selects a site.

Operating Project

- **Asset Categories:** While many real estate investors and operators tend to focus on a specific asset class like land development, it's not a hard rule. Companies such as REITs and insurance firms engage in Commercial Real Estate (CRE) transactions across various asset classes. Broadly, CRE is categorized into retail, industrial, residential, office, and hospitality.

- **Subcategories within Asset Classes:** Each CRE class consists of subcategories. For instance, in the retail sector, there are enclosed shopping malls, strip centers (classified as A, B, and C), and triple net leases. The industrial category includes segments like light, manufacturing, cold storage, marine, and aviation. It's crucial to understand that selecting the asset type, especially for new CRE investors, can determine the success or failure of the investment. Managing each asset type may require distinct skill sets.

- **Capitalization (CAP) rates:** When potential buyers or investors start exploring commercial real estate (CRE) investments, one of their initial considerations is evaluating CAP rates for each property. CAP rates illustrate the link between a property's expenses and its purchase price. This is calculated by dividing the net operating income (NOI) by the purchase price. The NOI includes the total rental income minus expenses like taxes, insurance, maintenance costs, utilities, vacancy reserve, and other expenses, excluding debt service. CAP rates assume a cash purchase, assisting buyers in understanding the potential financing capacity for the property.

- **Budget:** During this phase, buyers need to think about both the budget for purchasing the property and the total project expenses. For a detailed discussion on possible closing costs, please refer to the "Making a Deal" section below. Buyers should also consider other costs related to owning the property. For operational investment properties, are there plans for upgrades or renovations? Are there existing maintenance issues that need attention, and can the seller address them? For new development and construction projects, buyers should have initial cost estimates. Although specific costs may not be fully determined at this point, having a general budget in mind can help establish the maximum acceptable land cost.

Engaging a Commercial Broker

Engaging a commercial broker is crucial for a seller in the commercial real estate (CRE) industry. Similarly, for buyers of CRE, having their own specialized broker is invaluable. It is advisable for buyers to seek a broker who specializes in the specific asset class they are interested in and has connections in their target market. Brokers often have unique specializations; some excel in finding vacant land suitable for specific development projects, while others focus on strip centers and leasing. Finding the right broker can streamline the property identification process, making it efficient and effortless.

Making a Deal

Buyer's Preliminary Due Diligence

While the buyer may have done some research, there are specific steps to follow to find the desired property and secure it under contract:

- **Site visits:** The broker will suggest properties for the buyer to see in person, following online reviews. Multiple visits to the preferred location may be necessary to assess its development or investment potential. Similar to a homebuyer, a CRE buyer will inspect for any possible issues that could impact costs and value.

- **Comparable sale prices:** The broker plays a crucial role by providing comparable sale prices (comps), aiding the buyer in determining a potential offer price.

- **CAP rates:** Considering the CAP rate of the property is crucial when making an offer. This rate helps the buyer assess the financing potential of the property

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- **Engaging with potential lenders and investors:** Before making an offer, it's important to have discussions with potential financiers to understand financing options. Are there willing lenders with acceptable terms? Does the buyer have enough equity, or are additional investors needed? Clarifying the terms of investment or partnership agreements is vital.

- **Approvals**: For new developments or redevelopments, engaging with local government is necessary. Understanding the required approvals for the project, such as zoning, variances, land use, plat, site plan, and environmental considerations, is essential. It's wise to discuss these matters with planning and zoning staff, city/county managers, and elected officials.

- **NDA:** The seller may request the buyer to sign a Non-Disclosure Agreement (NDA) to access a due diligence package. Reviewing the NDA with legal counsel and promptly signing it is the initial step to kickstart the process.

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Offer / Letter of Intent

In the majority of CRE deals, the offer is presented through a letter of intent (LOI). The LOI can be prepared by the broker or the buyer's attorney and should include the essential terms such as:

- The names of the buyer and the seller
- Description of the property (preferably the legal description)
- The proposed purchase price and deposits
- Contingencies, such as financing, governmental approvals, liens, environmental permits, and any other conditions affecting the buyer's obligation to close
- Due diligence provision
- Confidentiality agreement
- Closing date
- The Letter of Intent (LOI) should clarify that it is not a binding agreement, except for the confidentiality clause, and that a formal contract must be signed for any agreement to be in effect. Additionally, ensure all other essential transaction and LOI provisions are included. For example, the buyer may request an exclusive negotiation period to finalize the contract.
- For more information on LOIs, refer to Letters of Intent. For a template of an LOI for your commercial purchase and sale transaction, please reach out as we will draft one for you.

Contract

Typically, the buyer's attorney is responsible for drafting the contract, which should outline these key elements:

- **The involved parties.** The seller named in the contract should hold legal title to the property. The buyer's attorney can verify this by checking the recorded deed in public records. Since the buyer may not have established the entity for property ownership yet, it's advisable to add "and/or assigns" after the buyer's name in the contract. Additionally, include an assignment clause allowing the buyer to assign the contract, at least to a buyer-related entity.
- **Property description.** The contract must contain the legal property description, usually provided as an exhibit. In Florida, legal descriptions are often platted (based on lot and block in a recorded plat), or unplatted using surveyed metes and bounds descriptions. The legal description can be copied from the recorded deed, a prior title policy, or a survey. Clarify if anything else is included under the term "property."
- **Purchase price,** deposits, and payment method. Specify when each deposit is due, designate who will hold the deposits (escrow agent), and outline how the purchase price and deposits should be paid (via check or wire transfer).

Due Diligence

- Specify the scope and duration of due diligence, including the buyer's responsibility to repair any property damage and indemnify the seller.
- Detail the actions to be taken at the end of the due diligence period, such as the buyer's termination rights and any additional deposit requirements.
- Clarify who is responsible for obtaining and covering the costs of the title commitment and survey.
- Outline the timeline for reviewing and addressing title exceptions, along with the procedures for objecting to and rectifying such exceptions.
- Address contingencies like financing, approvals, and other prerequisites for closing, including the consequences of not meeting deadlines.
- Discuss the buyer's rights to terminate, receive a deposit refund, extend the closing, and any associated extension fees.
- Highlight any additional documentation needed for development considerations, such as easements or reciprocal easement agreements, and set deadlines for agreement.
- Include provisions for property damage or eminent domain issues before closing.
- Request representations and warranties from the seller regarding property ownership, legal authority, property condition, financial accuracy, environmental hazards, and pending legal actions. and no known physical defects to the property or improvements.
- Default and remedies. Sadly, these are the most important provisions of the CRE contract. The contract must set forth the procedure for declaring a default, how notice is provided, and whether there is any opportunity to cure. Explain the remedies for the buyer’s and the seller’s breach. If the deposit is to be released, there should be explicit directions to the escrow agent.
- Costs of closing. State which party is responsible for what closing costs. Closing costs generally consist of the following, all of which are typically negotiable (except perhaps the brokerage commission):
  - o Documentary stamps on the deed.
  - o Cost of title commitment. In Florida, it is customary for the seller to pay for the title search, but the parties can negotiate otherwise in the contract.
  - o Title premiums and endorsements for owner’s title policy and mortgagee’s title policy. All title premiums in Florida are promulgated by the State Department of Insurance and are based on the amount of insurance purchased. Talk to your client about the premium and be aware that the insured is entitled to a rebate of a portion of the premium, known as the Butler Rebate.

Check out Chi. Title Ins. Co. v. Butler, 770 So. 2d 1210 (Fla. 2000).

- **Survey cost:** Typically, the buyer covers the survey expenses.

- **Brokerage commission:** Generally, the seller agrees to pay their broker a commission, and the seller's broker agrees to split this commission with the buyer's broker. Sometimes, the commission may be low, leading the buyer to pay their broker a fee.

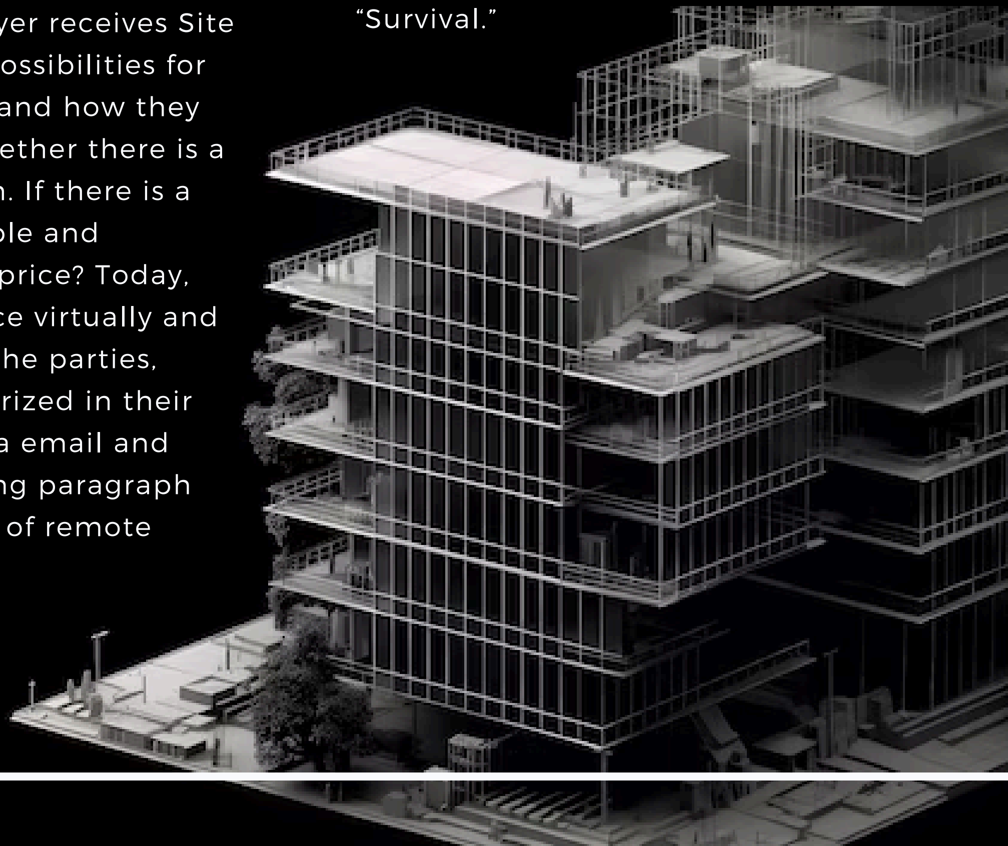
- **Prorations**: Items like taxes, rents, utilities, and escrows should be divided proportionally between the buyer and seller at the closing. Pay close attention to prorations, especially with income-generating properties like office spaces, retail outlets, hotels, etc.

- **Closing and closing date:** In cases with contingencies, the closing date may not be a specific date but should be easily calculable. For instance, "Closing will occur thirty (30) days after the buyer receives Site Plan Approval." Detail any possibilities for extending the closing date and how they work. are exercised, and whether there is a fee or deposit for the option. If there is a fee or deposit, is it refundable and applicable to the purchase price? Today, most CRE closings take place virtually and documents are emailed to the parties, signed, witnessed, and notarized in their own offices and returned via email and overnight courier. The closing paragraph should provide for this type of remote closing.

- **Brokers.** A provision naming the brokers involved in the transaction and confirming who is entitled to a commission is essential to protect both parties from third-party claims for unearned commissions. The provision should contain a mutual indemnity for such claims arising under the respective party.

- **Notices.** The notice provision ties with many provisions in the contract. It tells all the parties in the contract what constitutes effective notice. Include the method of delivery, the time notice is effective, and addresses in this paragraph.

- **Other provisions.** There are numerous other provisions that could be in a CRE contract. Some boilerplate provisions to consider include “Time of Essence,” “Modifications,” “Assignment of Contract,” “Radon Gas Disclosure” (mandatory for improved property), “Choice of Law,” “Attorney’s Fees,” and “Survival.”



From Contract to Closing

Buyer Considerations

Before finalizing the deal, the buyer must complete several tasks, starting with a thorough due diligence review that should cover the following points:

- **Environmental:** Request a Phase 1 Environmental Report, which should include asbestos and lead-based paint assessments for improved properties. If the Phase 1 Report suggests further testing, proceed with Phase 2 testing. Additional time may be needed for Phase 2 testing, requiring an extension of the due diligence period. For more details on environmental assessments during due diligence, refer to Environmental Due Diligence in Real Estate Transactions.

- **Physical, structural, mechanical, and systems:** Inspections for improved properties should be carried out by licensed contractors. In Florida, inspections for the roof and HVAC systems are crucial.

- **Soil/geotechnical:** These tests are essential when planning new construction projects.

- **Financial, rent roll, and operational:** While the seller may have provided initial information in the due diligence package, it is important to gather accurate and current information.

- **Approvals:** The buyer should engage in formal discussions with governmental authorities to obtain necessary approvals. It is crucial to adhere to the timing specified in the contract for submitting applications, such as during the due diligence period or after the buyer decides to proceed.

- **Preliminary design:** Timing is key in this stage as design work is linked to applications. Plans need to be ready before submission, and professionals must be hired for this task. Ensuring everyone is aware of the timeline is essential.

- **Title and survey:** While one attorney will provide the title commitment, it is the buyer's responsibility to enlist a surveyor within the contract's specified time frame. Coordination between the surveyor and the title commitment is crucial.

- **Contingencies:** The buyer must be mindful of meeting contingency deadlines to avoid missing critical dates. Financing contingencies, like securing a commitment for a mortgage or equity, typically arise towards the end of the due diligence period. Failure to monitor these dates may put deposits at risk.

- **Decision Time:** As the due diligence period concludes, the buyer faces a crucial decision: to terminate and receive a deposit refund or proceed towards the closing, which could still be months away. By not terminating, the buyer typically waives the right to do so.

Seller Considerations

After the contract is finalized, the seller's responsibilities lessen but they should keep in mind the following:

Timely submission of documents and other items is crucial. The seller must ensure all documents and materials are delivered to the buyer as stipulated in the contract. Failure to do so on time can lead to penalties for the seller, such as extending the due diligence period.

- **Due Diligence:** While the responsibility for due diligence lies with the buyer, it is essential for the seller to collaborate by granting access to the property and ensuring that their employees and advisors are available to address inquiries.

- **Contingencies:** All contingencies must be met or waived before the closing date; otherwise, the contract could be terminated. If termination occurs due to a contingency failure, the return of the deposit may or may not be granted based on prior negotiations. The buyer might have relinquished the deposit return right in exchange for extending the contingency period. Failure to act within the specified timeframe will be considered as waiving the contingency, obliging the buyer to proceed with the closing.

- **Applications for Approvals:** In cases where the buyer's obligation to finalize the deal depends on obtaining governmental approvals, the seller must assist in the approval process. This involves submitting necessary applications and may involve granting powers of attorney to the buyer or its engineers to act on the seller's behalf during the application process. Although it may seem unconventional to allow someone else to make decisions regarding your property, the contract provides safeguards for the seller. The buyer commits to closing once approvals are secured, with the deposit being at risk if the buyer fails to follow through. Obtaining zoning and land use approvals in Florida is a costly process, making it unlikely for a buyer to bear these expenses, obtain approvals, risk their deposit, and then not proceed with the purchase.

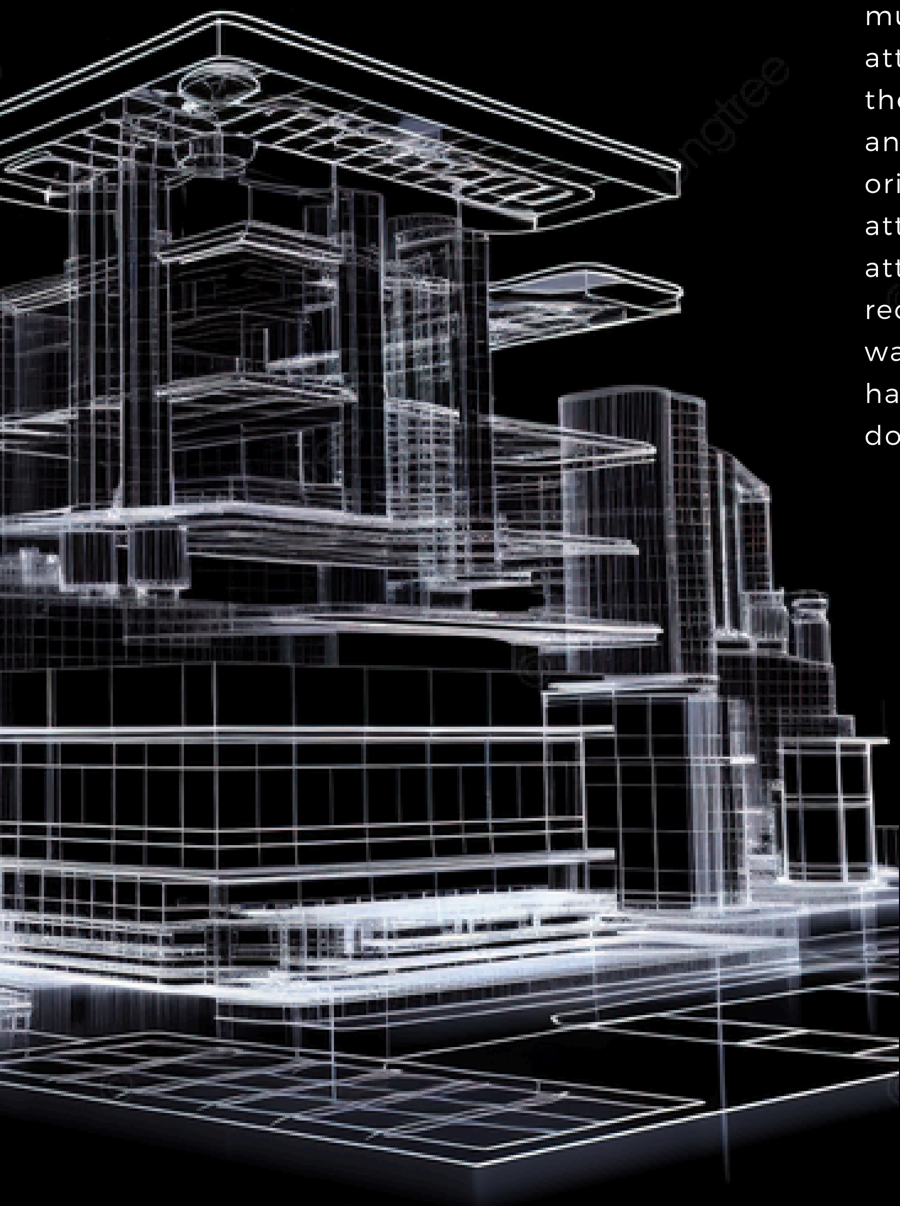
- **End of Due Diligence:** At the conclusion of the due diligence period, the buyer can choose to proceed or terminate the agreement. If satisfied with the findings, the buyer will likely move forward, potentially requiring an additional deposit. If the buyer decides not to proceed for any reason, they must adhere strictly to the process of notifying the seller and escrow agent, if applicable, in a timely manner. Any deviation from the contract process might lead to an escrow dispute.

Closing

Closing can sometimes feel a bit underwhelming. When both the buyer and seller, along with their teams, have executed their tasks effectively up to this point, the closing should proceed smoothly. However, everyone involved has specific responsibilities:

- **Role of the buyer's attorney:**
  - Create a list of crucial dates immediately after the contract is signed, ensuring the buyer is aware of and meets all important dates specified in the contract. Notify the buyer when key dates are approaching.
  - Review the title and survey to confirm compliance with the contract's standards and ensure that no issues revealed in the title and survey will impact the property's intended use. Prepare the title objection or notice letter to the seller and coordinate with the title company to meet all title requirements (Schedule B-1) and address any underwriting requirements or concerns. In Florida, the buyer's attorney may act as the title agent for the title company, and in such cases, the attorney may keep a portion of the premium paid for the title policy, which should be disclosed to the buyer. For more guidance on reviewing title and preparing an objection letter, refer to Title Insurance.
  - Aid the buyer in evaluating due diligence matters, notify the seller of any potential issues, and negotiate contract amendments when needed.
  - Obtain lien letters and conduct open permit searches, checking for any code enforcement liens.
  - Review and negotiate the seller's closing documents.
  - Provide assistance in securing land use and zoning approvals if necessary. It is advisable for the buyer to engage an attorney specializing in zoning and land use. For further information on zoning review, refer to Planning and Zoning.
  - Offer guidance on ownership structure, establish the ownership entity, and draft resolutions. Collaborate with corporate, tax counsel, and advisors, and assist in preparing partnership, shareholder, or operating agreements.
  - Negotiate with lenders and investors for financing and/or equity documents. For additional information on financing a commercial real estate acquisition in Florida, consult the Commercial Real Estate Acquisition Loan Resource Kit (FL).
  - Issue opinion letters to lenders. Note that opinion letters are often subject to negotiation. The buyer must understand that attorneys do not simply sign a form requested by a bank. Careful review of all loan documents is necessary before considering the opinions requested by the bank. While many opinions are standard, some, such as non-consolidation opinions, which relate to bankruptcy remote protections for lenders—are complex, and the attorney takes a risk in issuing the opinion. The buyer/borrower must be aware that legal opinions can add significantly to legal fees for a transaction.

- Prepare the closing statement.
- Act as closing escrow agent, receive closing funds, and disburse funds pursuant to the closing statement.
- o Record all documents in the order required by the parties and to properly insure title.
- o After closing, return recorded documents to the parties, issue the title policies, and disburse remaining funds.



Mechanics of Closing

The buyer's, seller's, and lender's attorneys exchange the agreed documents by email and forward them on to the parties for signatures. Documents are executed, witnessed, and notarized in each party's own office or home office and returned, first via email for review, and then via overnight courier. The parties' attorneys prepare and circulate explicit instructions as original documents generally must be sent to different parties. Documents that must be recorded always go to the closing attorney. Original loan documents go to the lender's attorney. The buyer's attorney and seller's attorney determine which original documents they need. The attorneys can agree that the closing attorney can initiate the wires upon receipt of email signatures or they might wait until the original documents are in hand. Scheduling for signing of documents is, therefore, very important.

- Closing of a CRE deal is not the end. Once a buyer owns the property, he or she must build or operate it. The issues facing landlords and developers are also complex, and buyers should always keep them in mind throughout the acquisition process. The seller must invest the sale proceeds, perhaps in new CRE, which would mean the seller becomes a buyer and starts the process again.

INVESTMENT PROPERTY TIPS

PAPERWORK - 1

Income and Expense Report Guidelines for Selling Your Commercial Property:

- To ensure a smooth sale of your commercial property, organizing your financial data is crucial.
- Generating an income and expense report provides insight into the property's value for you and potential buyers.

We can assist in creating and including these reports in the listing.

Income Section:

- Record all income sources from the property monthly and annually.
- This includes rental payments, additional income from parking spaces, laundry facilities, or other sources like billboards or cell phone towers on your property.

Expenses Section:

- The report should outline yearly expenses, such as:
  - Property Taxes
  - Insurance Payments
  - Utility Charges (Water, Sewer, Electricity, Gas, Oil)
  - Maintenance Costs (estimated around 5% of gross operating income)
  - Vacancy Costs (typically 5-10% of gross operating income)

Document Compilation:

- Before listing your property, gather physical copies of all income and expense-related documents included in the report.
- Collect statements from the previous year, covering utility bills, insurance, property taxes, mortgage payments, rent records, maintenance expenses, and more.

INVESTMENT PROPERTY

PAPERWORK - 2

Expenses & Income cont.

You should scan all of these receipts into the computer so you also have a digital copy of them. This will make it easier to send an item to a potential buyer, an attorney or a Realtor if requested since you will already have it available electronically.

Copies of all applicable leases: You will want to gather the copies of all lease agreements for current tenants. This will be used to verify the current rent payment, as well as the type of lease and length of the lease.

List of any recent improvements to the property: You should put together a list of any improvements you have made to the property in recent years. For example, have you put on a new roof, replaced the furnace or renovated the spaces? You will also want to include the approximate date the work was done and possibly the approximate value of the improvement.

In addition, you should also find any proof of the work that was done. This could be copies of invoices, contracts for the work or other receipts.

We will use this list of improvements when putting together the listing details for your property. Therefore, this list should be as thorough as possible.

Copies of any permits: The first thing you will want to do is to make sure there are no open permits on your property; *We will dig into the public records for this information*

If there are any open permits on the property,, we will likely need to close them out before the sale.

I will gather or obtain copies of all permits for any work that was ever completed on the property.

DETERMINE PROFIT POTENTIAL

We will assess your property & debt to get a ballpark of how much money you could potentially make on the sale of your property.

Seller Net Sheet
1. How much do you owe on your mortgage? Do you have any prepayment penalties?

2. Know the closing costs you will be responsible for during the sale of your property. This will include a realty transfer tax at sale, realtor commission at sale, and recording fees.

3. Know what your tax basis is for the property so that you know how much in taxes you are going to owe. Speak with your accountant to determine what your tax basis is. In general, your basis will be all of the expenses that have gone into the property that was not written off in a given year, such as purchase price, closing costs, and improvements, minus how much you have written off in depreciation over the years.

4. Know what the rough market value of your property is. The Comparative Market Analysis of similiar properties will determine an approximate list price valuation.

5. We'll take the rough market value of your property, minus the amount you have left on any mortgage, minus closing costs of selling your property to determine how much money you would walk away with at sale ie a Seller Net Sheet.

6. You then need to determine how much money you will owe in capital gains taxes. To do this you will take the sales price of your property minus the tax basis you have calculated. This amount will determine what you owe for capital gains taxes. Make sure you speak with your accountant because there can be scenarios where you walk away with very little money at sale but owe significantly more in capital gains taxes due to depreciation write-offs taken throughout the ownership of the property.

MAINTAINANCE

This is the time to address any maintenance issues you have been putting off.

Making the most of your property

Deferred Maintenance: Prior to the sale, you will want to get your property looking as good as possible. This is the time to address any maintenance issues you have been putting off. This can include painting common areas, improving landscaping or curb appeal, fixing running toilets or minor drips in faucets.

Capital Improvements: You also need to determine if completing any capital improvements prior to sale is worth it. Will the improvement produce a larger return than it costs? For example, are you able to put a new roof on the property for less than the market rate?

Does it make sense to invest more money into the property? If you do not make such improvements, will it reduce the possibility of sale? Will a bad roof, rotting deck or holes in walls deter someone from purchasing the property? Evaluate the property for needed repairs (they’re tax deductible!).

It might be tempting to get a rental property off your hands as quickly as possible by listing it right away, warts and all. And you might get lucky enough to find an investor who wants a house that needs some work in exchange for a better deal. But it might be worth your while to fix that leaky faucet, jammed window, or creaky door before you sell.

Generally speaking, a clean, updated, home sells for a higher price than a rental property in need of repairs. Any repairs you make on a rental property — defined by the IRS as “expenses to keep your property in good working condition but that don’t add to the value of the property”— will be tax-deductible. The key is to know the difference between “repairs,” which are immediately deductible, and “improvements,” which the IRS treats differently because they’re seen as adding value. For example, if you replace the roof of your rental, the IRS considers that an improvement that must be depreciated over several years.

FINAL TIPS

Some General tips to make your income property attractive

Making the most of your property

General Tips: Fill any vacancies: Prior to sale, you will ideally have 100 percent occupancy at your property. If you do have a vacancy, do not cut corners to try and fill the vacancy quickly. Make sure you still follow your complete screening process.

If your property does not sell quickly, you will be stuck with whatever tenant you place in the property. You also do not want to place problem tenants in the property who may damage the property at a time when it needs to look its best. It is better to have a vacant unit than one that is occupied with a bad tenant.

Interview Realtors: You will need to find a Realtor to list your rental property with. If you already have a Realtor you have worked with in the past and feel comfortable with, then you are all set.

Otherwise, you will need to interview several Realtors. It is important to look for Realtors who specialize in the property type and the area in which you are selling, you want to look for someone who has success selling the property type you are trying to sell. Think of it in the same way that attorneys specialize in certain areas such as divorce, tax appeal or corporate law.

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SHOWING AN OCCUPIED PROPERTY

The most important step in dealing with your renters during a sale involves active communication.

Making the most of your property

If your tenants remain in the space during the selling process, you will need to work with them to have the property available for showings and in pristine condition. Property values have been known to drop because of the condition of the units and the lack of access for agents and prospective buyers.

A great way to encourage active participation from your tenants to work with real estate agents and accommodate showings is to offer incentives.   Let them know that their lease will be honored.

Taking the steps to include your tenants during the selling process will be beneficial for a smooth commercial property sale. If you choose to work with a real estate agent, make sure they understand the terms of tenancy for your current renter.

CMA/ROI/CAP RATE

COMPARATIVE MARKET ANALYSIS - Return on investment and capitalization rate

Making the most of your property

What is a Comparative Market Analysis? In the world of Real Estate Investing, CMA stands for Comparative Market Analysis. A CMA should give you information on recent sales and active listings that are similar to the property you are looking to buy and sell within your geographic region.

Return on investment (ROI) is a performance measure used to evaluate the efficiency or profitability of an investment or compare the efficiency of a number of different investments. ROI tries to directly measure the amount of return on a particular investment, relative to the investment’s cost.

Capitalization rate, often called the cap rate, is the ratio of net operating income (NOI) to the investment asset value or current market value. If we sell your property for $150,000 and the montly rent is $850 with minumum maintainance of $50 a month = CAP RATE 4.86%

The Internal Rate of Return (IRR) is the discount rate that makes the net present value (NPV) of a project zero. In other words, it is the expected compound annual rate of return that will be earned on a project or investment.

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OUR SUITE OF COMMERCIAL SERVICES INCLUDES:

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✅ Complimentary Proforma Analysis

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✅ Complimentary Professional Photography

✅ Complimentary 4K Videography

✅ Animated 3D Renders -show potential development on the land

✅ Subdivision & Lot Breakdowns - show subdivision and site overlays

✅ Virtual Drone Technology - shows what's around the property

- High-end Graphics
- Custom Slides
- Drive Times
- Multiple Parcels
- Clear Property Lines
- Satellite Intro
- Site Plan Overlay
- Development Phases and more

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John McDermott *- General Counsel*
National Apartment Association

THANK YOU!

LET'S START YOUR JOURNEY.

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LET'S TALK ABOUT YOUR PROPERTY!

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