12 Tips for

Strategic Commercial Real Estate Transactions

Provided by COMPANY



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VALUING YOUR PROPERTY

Whether or not you are ready to sell a property, estimating its value is a great place to start. Here are some tips to valuing 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 $130,000 per year and paid $1,000,000 for it, the capitalization rate is: 130,000/1,000,000 = 13%. Whether 13% is good or bad will depend on comparable cap rates in your area. If a majority of buildings have a 10% cap rate, you are in the lead! However, if they're at 15%, you may have an issue.

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. APPRECIATE DETAILS ABOUT DIFFERENT PROPERTY TYPES

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.

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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LOWERING VACANCIES IN YOUR PROPERTIES

The number one challenge for any commercial property owner is to keep vacancy rates low. The best way to keep vacancy low is to attract and retain quality tenants – but how is this done? It's not as simple as negotiating a lease or sending out an online advertisement – there are many market challenges to understand, and marketing plans that need to be thought-out before you can successfully bring in quality tenants.

4. KNOW YOUR MARKET

Understanding what's happening in your market, and particularly, in your neighborhood, will help you when deciding what lease rates and amenities to offer, and other important criteria.

Lease rate comparison. When competitors offer significantly lower lease rates, it can be difficult to compete on pricing alone. If you are not in the position to lower your lease rates, consider offering additional amenities such as covered parking, security systems, paid-for utilities, or complimentary high-speed internet. When deciding the appropriate lease rate for your building, consider asking a commercial real estate agent for a market comparison that will outline your main competitors, their offered amenities, lease rates, and any sign-up offers. Doing a tour of competitive buildings will provide you with hands-on market knowledge.

Location highlights. Location is the number one sell-factor to tenants, yet is the only piece that cannot be changed or controlled. Be honest with your location highlights: something that you perceive as undesirable may in fact be a selling point to a potential tenant. 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.

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 their lease rates. If most of your competitors are offering low rates but no amenities, you may want to compete by adding additional property highlights such as valet parking, utilities, or a shared reception desk.

Demographics. Running a one-, three- and five-mile demographics report on your property will provide you with necessary insights into the surrounding population. While many businesses prefer higher populations, others may prefer particular household income levels, age groups, or property values. Being able to provide this information can be crucial to attracting new tenants.



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5. UNDERSTANDING TENANT NEEDS

Potential tenants have a variety of needs depending on their business type. Learning more about these needs can help you market your property to quality tenants.

General Offices

When renting general office space, location and building features are important in attracting the right tenants for your building. How easy will it be for employees and clients to get to the office? While most office renters will not require close access to highways or high traffic areas, some may prefer to be closer to restaurants, airports, or shopping. Businesses that invite clients to the premises will be interested in outdoor signage and business directory listings so that clients can easily locate their office.

Offices for businesses requiring unskilled labor often need to be easily accessible via public transportation. Conversely, other companies, such as software developers, may prefer an affluent neighborhood and class "A" buildings. Prestigious firms like law-related fields, agencies, and investment services may also be interested in architecture, a building's sustainability ratings, fountains, valet parking, and other features or amenities.

Medical Offices

Medical office tenants are most concerned with the layout of their office space and location. While a physical therapist needs a few examining rooms, a lobby and one open space for equipment, a family practitioner needs no open space but many small examining rooms. Proper electrical connections for equipment such as X-ray machines may also be needed.

Distance to hospitals, laboratories, specialists, and other medical offices play a role in medical office tenant decisions. Many doctors like to be close to hospitals and specialists in case they need to refer a patient quickly.

Retail

Retail tenants are primarily concerned with demographics. Location is key: retail businesses need a site that contains adequate parking, outdoor signage, and easy access into the center. Retail businesses are also concerned about nearby competitors and traffic generators. It's not ideal to rent space in the same shopping center as three other businesses of



the same type, so make sure to target your potential tenants carefully. Smaller businesses that require heavy foot traffic prefer being near big-box stores, restaurants, and other retailers.

To attract tenants in your retail properties, emphasize your proximity to population dense areas, area traffic generators, and other retailers.



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Industrial

Industrial tenants are limited to setting up business in designated industrial zones. Pay attention to the type of zone your building is allocated to, and advertise it to businesses that can occupy that particular space. If you are unsure you may need to consult with your local zoning department and a commercial real estate agent.

As well as complying with zoning regulations, many industrial tenants need access to railroads and highways so they can easily transport finished goods. Highlight your proximity to these modes of transport as well as your zoning classification to attract these types of businesses.



6. WINNING FIRST IMPRESSIONS

Curb appeal is as effective with residential buyers as it is with commercial ones. Spray-paint on the walls, cracked driveways, deteriorating spackle, and flaky paint may leave potential tenants asking what else is not maintained. Well-maintained buildings attract higher quality tenants. In addition, higher lease rates can be negotiated when the building is well cared-for.

When attracting new tenants make sure to schedule regular landscaping, fix problems with the exterior such as peeling paint or rusty hinges, and check that the lights, temperature control and electric outlets work properly in vacant units.



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7. ATTRACTING TENANTS

Long-standing vacancies may be a sign that more marketing is required. Potential tenants need to know your building is available before they can view your property and sign a contract.

Don't get stuck with one form of advertising. Instead, utilize every marketing channel to make sure you are reaching your target market.

Online databases. Large databases like LoopNet can help expose your vacancies to thousands of real estate agents and business owners. 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 fill your vacancies.

Brochures and other printed materials. An effective brochure can be a vital tool when attracting new tenants. Focus the brochure's content on the property features that will appeal to your target market. A professional design will separate your building from the crowd that advertises with word processing software. Attaching a well-made brochure to your online databases (LoopNet, etc.) and using them for mailers will get your property noticed.

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



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TENANT REPRESENTATION
FINDING YOUR PERFECT SPACE

There are many questions to answer in your pursuit to find the perfect space for your business. This guide will walk you through some of the key considerations.

8. "WHAT DOES MY BUSINESS NEED?"

At the very start of the process, the most important thing to think about is exactly what kind of property your business requires. How much space is needed and where the best location is for your needs will vary depending upon your specific industry. However, there are a few universal rules that will need to be considered.

Know your budget

Awareness of your budget will help you refine your search criteria and identify only the best listings. Whether you are browsing online, driving around particular neighborhoods, or working with a broker, applying a budget is the best way to narrow your search. Not only does this help you to see exactly what is within your reach, but it also stops you being distracted by properties that are unrealistic and not within your means.

Reduction and expansion

When looking for a commercial property, it is important to consider how flexible or rentable the space is, in case you need to downsize or expand in the future. If you are looking at expanding in the next few years, perhaps a larger space would be best. Consider your ability to sublease additional space, just in case expansion doesn't happen as quickly as expected. If you're less inclined to take a risk on larger spaces, consider a shorter lease for mobility.

Location, location, location

Although prime location varies depending on the type of business, there are a few key components that are universally important. Consider all necessities, including access to public transportation, proximity to highways, parking, and closeness to your preferred demographic.

Retail businesses especially need to consider a location close to potential customers, population counts and traffic. High-end retail should take into account specific retail clusters, including shopping centers, malls, and area income demographics.

Non-retail businesses should contemplate a location close to a sizeable or qualified workforce. After all, there is no point in finding a great space if you can't attract the appropriate staff. If highly skilled or educated employees are needed for your business, you may want to place your business in an area that has a demographic of highly educated people. For manufacturing or low-skilled workers, consider a short distance to public transportation.



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9. CONSIDER LEASING VERSUS BUYING

One major deciding factor is whether to buy or lease your commercial property. There are many pros and cons to each approach. The best option is wholly dependent on a number of variables.

Cash outlay

One of the biggest differences between buying and leasing a commercial property is the initial cash outlay. Purchasing is only an option for those that can afford a large cash commitment. Many less established companies prefer to reduce the risk by renting rather than by making a large commitment to buy.

Growth and expansion

Business moves fast – huge growth and the need to expand can be just around the corner, but it can be costly and time consuming to buy a property that you suddenly grow out of. However, with a purchased property there is the possibility to lease at a profit, thus creating a second income stream.

Capital appreciation

When you purchase a commercial property, you are also making an investment. Thus, if your area is experiencing appreciation, you could sell at a profit. You may also gather profit by leasing additional space to other companies.

10. SPECIAL CONSIDERATIONS FOR SPECIFIC INDUSTRIES

As mentioned earlier, the factors that lead you to purchase or lease a specific property may vary from sector to sector. Here is some additional advice and information that is specific to certain industries.

Office

Since most offices are service providers, people buying or leasing office space don't usually have to be concerned with their target market's location, but they do need to be aware of where their employees are located. For example, if a business needs a highly educated staff, they'll need to consider a location with a highly educated demographic, while a business that generally employs minimum wage workers may need to be aware of access to public transportation and commute times.

With regards to the aesthetics and layout of an office space, both functionality and the comfort of your employees are important – the appearance and style of an office can make a huge difference to



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productivity. Many offices favor an open plan-style layout with separated areas for quiet work and conferences. If your business is considering this route, it is crucial to incorporate a balance between communal working spaces and quiet areas.

In addition to this, you should also think about the building amenities you may prefer, such as security, ease of parking, a lobby, shared reception desk, or fitness room.

Medical office

The best layout for a medical office largely depends on the specialty being offered. While physical therapists need a large open space for equipment, a general practitioner may be more interested in a lobby area and small examining rooms. Medical offices also benefit from being located close to neighboring practitioners, such as laboratory services and hospitals.

When considering the location of a medical office, you will need to think about accessibility. Not only must it be easily accessible to vehicles, but also you must consider wheelchair access and public transportation.

Retail

Finding the perfect retail space is a little more involved, as a location can make or break the business. Think about the area's demographics: an ethnic specialty store would be best located in an area that has a high concentration of people in that ethnic demographic, for example. Restaurants need to show particular interest in parking and accessibility – because they require additional parking, there may be local laws that limit the number of restaurants in a shopping center. Other demographics to consider include income, home prices, and proximity to schools.

Research is the most important aspect of finding the perfect retail space. It is imperative to undertake research into factors such as street traffic, foot traffic and area demographics before deciding on a space. For a new business, it is especially important that you have a firm understanding of your products and services before you conduct your research, so as to understand your own requirements.

Industrial

When looking for an industrial space, zoning is key. The buyer or leaseholder will need to consult a commercial real estate agent who will match the industrial business type with a particular zoning designation. Another important consideration is distribution. If the business requires constant deliveries or exports, a close proximity to highways, railways, or shipping yards will be preferred. Also take into account any required facilities, like docking areas, warehouses, and office space.

Another issue is access to transportation for employees and scale. It is crucial to ensure that you have adequate space for employees to work safely within the building. As with other industries, it is key to have access to your specific workforce.

11. PLANNING AND CRITICAL THINKING

First and foremost, you should avoid rushing in. Planning and preparation are absolutely critical. As exciting as it can be to find a suitable space, taking your time and looking into every facet of the commitment is crucial to the success of your company.

When looking at moving your business location or setting up in a space for the first time, be aware of exactly what your company represents, what it does, and where it is headed. It is important to remain realistic about your business throughout the process. By having realistic plans and ambitions, you can ensure that you buy or lease a space that will evolve with your business.

From the outset, you should consider the space as a piece in the jigsaw puzzle. If you are looking for a new space, it means your business is entering into a new and exciting chapter. Make sure you do everything within your power to make it a positive one.



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12. FIND A COMMERCIAL REAL ESTATE AGENT

It's difficult to do these things alone. If you're faced with the complications of buying, selling, or leasing commercial property, consider utilizing a knowledgable commercial real estate agent.

When it comes to helping purchase, sell, or lease commercial real estate in CITY, we can provide guidance, property valuation, comparable sales reports, targeted marketing, demographic reports, traffic counts and contract negotiations.

COMPANY can provide a full range of buyer, seller, or leasing representation services to local, national and international clients. If you require help finding potential investors, assistance with your properties' vacancies or finding the perfect space for your business, We have the expertise to support all of your commercial real estate needs.

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