

# **HIRC**

**The High-Risers Club**

**10.22.2024 – Commercial Transacting**

# Coach Jeff Wright

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# Welcome

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Does anyone have anything great to share personally or professionally?



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# Podcast

**Tune in wherever you get your podcasts!**

- **Last Week: 29 Questions You Should Ask a Potential Office Tenant Looking to Lease Space**

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# Greatness is Within



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# Commercial Building Sales and Valuation

**What is important to the tenant /  
buyer / seller / landlord**

# Commercial Building Sales and Valuation

**Lease return vs rate**

# Commercial Building Sales and Valuation

1. **Selling a commercial building as is. Is there anything I should be aware of?**
  - a. **Due Diligence:** Conduct thorough inspections and due diligence to understand the condition of the property.
  - b. **Hidden Costs:** Be aware of potential hidden costs associated with the property's current condition. Factor in possible renovation or repair costs into your budget.
  - c. **Future Potential:** Despite buying the property as is, assess the potential for future value appreciation or rental income. Evaluate if the property aligns with your long-term investment goals.



# Commercial Building Sales and Valuation

## 2. Commercial listing description indicates Class A Building. How do I know if it's a Class A building, and what does that really mean? (cont.)

Class A building key features:

- Best in market
- Good location and access
- Professionally managed
- Excellent tenants
- First-rate amenities
- Newer building
- Higher market rent
- Least risk for an investor

# Commercial Building Sales and Valuation

**3. I have an appointment with a potential seller. Wants to list his business (gas station) it is on a 30 year land lease with 28 remaining. Says he doesn't show much income on his tax return. How do we value this?**

Selling businesses is a specialized field, often handled by business brokers. Personally, I avoid selling businesses because it requires expertise that few realtors, including myself, possess. Businesses for sale are commonly listed on dedicated platforms like BizBuySell, rather than traditional real estate listing services.

Business valuation typically mirrors the approach used for investment properties, primarily based on the net income (income - expenses), with a multiple applied. The specific multiple can vary significantly depending on factors such as the type of business, its financial stability, lease duration, and market competition. I hope this information proves helpful.

# Commercial Building Sales and Valuation

- 4. Working on a property valuation for a building that is about 28,000 square feet has one occupant and is classified as office/warehouse. Since there is no rent, should the Sales Comparison Method be used vs the Income Method to determine value?**

The way I approach valuing properties with no income is as follows:

**1. Sales Comparison Approach:**

- a. Similar to residential properties, I gather information on recently sold properties that are similar in size, location, and characteristics to the subject property. Specifically, I focus on industrial properties, particularly those with office/warehouse space.
- b. I make adjustments for any differences in size, condition, age, location, amenities, and other relevant factors. This analysis helps account for variations between the comparables and the subject property.
- c. Based on the adjusted sales data, I determine a range of values for the subject property. This range helps establish an estimated market value.

# Commercial Building Sales and Valuation

**4. Working on a property valuation for a building that is about 28,000 square feet has one occupant and is classified as office/warehouse. Since there is no rent, should the Sales Comparison Method be used vs the Income Method to determine value? (cont.)**

2. I analyze the market as if the property were rented at market value and estimate its value using the Direct Capitalization Method ( $I/R = V$ ). This allows me to gauge its potential value if it were generating income.
3. I also consider the value used by the municipality for reference and to gain further insights into the market.
4. Additionally, I may reach out to an appraiser for their opinion, as they can provide additional guidance and expertise.

There is no perfect approach, but I prefer to explore different valuation methods and learn from the data. Ultimately, the market will determine what someone is willing to pay for a property.

# Commercial Building Sales and Valuation

## 5. Are commercial loans assumable?

In most cases, commercial loans are not assumable. There are some lenders however, that will permit, for example an Agency Lender (Freddie Mac or Fannie Mae). Requires review of the loan docs.

# Commercial Leasing and Commissions

1. How do we have the conversation with property owners about how commercial lease commissions work?

# Join Our Facebook Group

<https://www.facebook.com/groups/commercialrealestateforresidentialrealtors>



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FOR RESIDENTIAL REALTORS®**  
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# Next Session

**Valuation Exercises: Bring your calculator or computer.**

**Tuesday, October 29<sup>th</sup>, 2024  
@ Noon Eastern**



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