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Commercial Real Estate: The importance of transparency - by Shallini Mehra

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There is never a dull moment in investment sales–each serving has its own educational opportunity. Once the green light to market a new deal is given, we prepare the offering memorandum, devise a marketing strategy and then it's off to the proverbial races.

In New York City, the mindset has been buy "as is" and sell "as is." Hence, the buyer will scramble at NYC speed to assess whether the deal will work. Sellers are often singularly focused on the notion that they originally bought their properties with certain circumstances and they expect to sell them that way. Trying to sell a deal in that gray area–with a lack of information, due diligence and transparency–we often end up with delays, doubt and ultimately lower pricing. Of late, I have worked on a number of transactions, which required some upfront due diligence and work on the part of the seller to help create a clear sales path. I can tell you definitively, the effort was worthwhile. Here are just a few examples.

We recently worked on a transaction, which involved the sale of a free market building. The building was gut renovated 30+ years ago, qualifying it as a substantial rehabilitation and therefore taking the building out of the rent stabilization arena. However, the burden of proof today still rests on the owner to prove. Without a paper trail, the buyer assumes the risk of going from free-market back into rent-stabilization. The seller opted to take precautionary measures, which included getting a legal opinion and hiring a forensic engineer to ascertain the age of the systems in order to prove that there had been a substantial rehabilitation. These efforts ultimately made the sales process smoother and allowed the investors to focus on the opportunity instead of the potential liability.

Some deals are not even as complex but they still require just as much due diligence. Our firm worked on the sale of a coop package which was spread over seven different buildings. Because the units were under a long term ownership, the seller did not have in their possession much of the needed documents including offering plans, building financials, house rules, proprietary leases and share certificates. Although it took three months, with the cooperation and patience of the seller, we collectively secured all of the key documents before going to market, resulting in a quicker and more efficient sales process. We received the highest offers within the first few weeks of marketing and were able to close out a deal quickly.

In another example, we were getting ready to market a commercial building, where our game plan included a variety of repositioning strategies. While all prospective buyers will consult with their own architects, our seller proactively engaged a zoning expert to analyze the asset. This effort helped us

hone our redevelopment scenarios and better tighten our marketing.

Keep in mind, if there are any unknowns, they will be eventually be uncovered and valuable time will be lost–and often the deal as well. While it may seem like an unnecessary expense upfront, providing the right knowledge and research at the start of the sales cycle is the best way to attract real buyers. Bottom line, having your war room ready instills a sense of integrity, responsibility and transparency for all parties involved, and ultimately helps fill your war chest.

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