



Hunt Corp. Commercial Real Estate Q&A: Seven steps for maximizing economic benefits - by David Hunt

February 02, 2021 - Long Island

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Q: Our company is a 30-year-old engineering and production company and we definitely need to expand in the next couple of years. As we consider our real estate needs, we are also trying to understand all the economic programs that may be available to us. Can you give us some guidance?

A: From your brief description of your company, you sound like an excellent candidate for many economic development programs, from low-cost financing to tax abatement and energy savings. Why are towns, counties and states willing to provide these incentives? Businesses drive economies, particularly businesses with many high-paying jobs, and governments at all levels understand this. All economic agencies are really interested in just one thing...Jobs. Your objective is to leverage your assets (bringing or retaining jobs in a community) in order to obtain the best benefits package. Here are seven steps that will help you do that:

1. Start the benefit process early and talk to everyone. The earlier that you start, the more leverage you have. Contact economic development agencies in every area under consideration, and let them all know that a good package is going to be key to your decision. Early knowledge helps you negotiate more efficiently.
2. Assemble your team of experts and make sure that they are communicating. Your legal team, financial team (CFO, accounting firm), commercial real estate representative, and if warranted, an economic benefits advisor should all be talking to each other. All these disciplines will be interacting with each other in the real estate acquisition process.
3. Make economic benefits an integral part of the real estate acquisition process. Have your representative contact economic development for each locale and assemble a list of potential benefits available for each property under consideration. Then continuously evaluate the benefits available as part of the economic cost of acquiring the real estate.

“But for” is a phrase used in economic development to describe the concept that the benefits will only be provided to lure you to the particular site. Most benefits are lost if you enter into any paperwork without a benefit contingency. So, negotiations should be confidential and no premature announcements should be made. And when you are made an offer of economic benefits, get it in writing!

4. The economic benefit engine is powered by jobs - the more you have and the more you can create, the better your leverage. Put your best foot forward, and prepare a package on your firm and its growth. Project your job creation into the future. Be positive but also realistic.

5. Create competition wherever possible. This is Negotiating 101 – Create alternatives, and let each entity know that they are competing with others. If you can, pit state vs. state, county vs. county, and town vs. town.

6. Do a cost-benefit analysis of each component of economic benefits. Legal costs can be significant for some major benefits, so make sure they are worth pursuing by diligent research on their associated costs.

7. Incorporate the benefits and associated costs of the economic benefits in a discounted cash flow spreadsheet of each real estate alternative. A great economic benefits package is probably not going to make a bad real estate deal a good one! Incorporating all the quantifiable costs and benefits of each real estate alternative, including economic benefits, is essential to good real estate decision-making.

If you diligently follow these seven steps, you will almost certainly achieve the best economic benefits package achievable.

Do you have a question regarding commercial real estate? Email your question to Commercial Real Estate Q & A, at email@huntcorp.com for possible inclusion in a future column.

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