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Hunt Corp. Commercial Real Estate Q&A: Evaluating the buyer - by David Hunt

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Q: We are selling an industrial building and have multiple offers that are very close. Besides price, how else would you evaluate the offers in making a final decision?

A: This has been a common occurrence on Long Island in the last few years (and frustrating for buyers) as increasing demand has chased a dwindling supply of commercial properties. While price is certainly important, it is not the only criterion. If two prices are relatively equal, I would be more concerned about which offer is more likely to close, and how quickly it will close. So, let’s look at some of the items that may contribute to a fast and successful closing.

The Purchaser: This is usually a subjective decision. As an example, a large public company may be a desirable purchaser because it is financially strong, but undesirable because there are layers of management involved in the approval process. Or a company that needs to occupy the building in five months because of an expiring lease may have more motivation to close than an investor who is hoping to find a tenant. This means that you should take a close look at the prospective buyers and their motivations, and ask yourself who needs the deal the most.

Financing: If the contract is to be subject to financing, you must have reasonable assurance that the purchaser can achieve the financing. I ask for a full set of financial statements. After I evaluate them, I ask a mortgage professional to do the same. If the purchaser is looking for a high loan-to-value ratio (LTV), will it be reasonably granted? If the purchaser has identified his lending institution, I like to pick up the phone and chat with the lending officers. Of course, an all-cash deal with no financing contingency is much more desirable, all other things being equal.

Other Contingencies: The two other major contingency items are title and environmental. The first is rarely an issue in comparing buyers, but the second can be huge. There is no commercial property that is being sold today without an environmental report and a contingency associated with it. The important item to be negotiated is what happens when an environmental report is positive and remediation will be necessary. I cannot discuss all of the possible alternatives in this column, only point out that two different purchasers may consider different alternatives, one of which may be more advantageous to you. (And, of course, the purchaser with the fewest contingencies is usually to be preferred.)

Timing and Cash Down: You will usually favor the buyer who can close more quickly, all other things being equal. And from your point of view, the fewer rights the purchaser has to delay the closing, the better. Also look for a substantial down payment. Avoid purchasers who are offering down payments that are little more than “option” payments that permit them to walk away.

Representation and Legal Counsel: And finally, I am more likely to have a “warm and fuzzy” feeling with a purchaser who is well represented, by both broker and attorney. The likelihood of closing is much stronger if both are well respected in the industry, as well as professional in their conduct.

There may be other issues or concerns that arise, but a review of these items is a great start in comparing multiple offerings, making a decision, and quickly achieving a successful closing.

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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