



Hunt Corp. commercial real estate question and answer: Fundamentals in negotiation - by David Hunt

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David Hunt

Q: Once we have found the building we want to purchase, what is the best way to start negotiations?

A: Entire books have been written about the art of negotiating, so I can share only a few of the strategies that have helped me negotiate advantageous transactions for our clients. Fundamental to any successful negotiation is thorough preparation – this is the work that needs to be done before a single offer is made.

First, any negotiation has to be kept in the context of your needs. Let's suppose we have two alternatives for warehouse space. We know we will save at least \$1.50 per s/f in real estate taxes with one of them, but that same alternative will increase our shipping costs significantly. Which is the better deal? Don't run roughshod over your needs in your zeal to make a great real estate deal! In other words, a bargain is not a bargain if you cannot use it.

So, research is elemental. I like to gather as many facts as I can about an impending negotiation such as building particulars, cost of repair or renovation, zoning, taxes, tax assessment, and ownership history. I question how the ownership of this property will impact my client. What kind of savings can be achieved, or costs mitigated? And what is going on in the marketplace? Where are similar deals being made? I like to find out, if possible, what offers have already been rejected, and why.

It is also important to be considering, and negotiating on more than one site. This is known as a "Best Alternative to a Negotiated Agreement" (BATNA) in negotiating parlance. If the property under consideration is our only alternative, we are at a disadvantage in negotiating terms with the seller. If, on the other hand, we have several alternative sites, we can negotiate all the deals simultaneously. When we are ready to make offers, the key to this strategy is to make sure that each seller is aware that we are making offers on alternative sites.

Next, I always look to the needs of the other side. It often seems like price is the only or major component of a real estate transaction, but I often find that the opposite is true. Perhaps timing, terms, or some other issue is more important to the seller. I have regularly negotiated deals for a buyers in which the sale price was not the highest bid on the property. What we were able to offer the sellers, however, was either a deal that was not contingent on financing, or a quick closing. In investigating the needs of the seller, it may become clear that this is more important to the seller than a higher sale price. This is a good example of how one can provide a negotiating "chip" to the other side, at little or no cost to yourself.

Probably nothing is more predictive of a successful negotiation than preparation, knowledge and analysis. The time required in this phase of negotiations will be well spent, and is always the place to start.

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.

David Hunt, MCR, CCIM, SIOR is the president of Hunt Corporate Services, Inc., Plainview, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540