



Hunt's Commercial Real Estate / "Pricing Industrial Property"

November 20, 2009 - Long Island

Q: We will be placing an industrial building on the market shortly. What is the best way to establish the right selling price?

A: Setting an asking price is more art than science, but certainly the first step is to establish the market value of the property. The real estate appraisal process considers three means of establishing value: the cost approach, the income approach and the market approach. The cost approach establishes the cost of constructing the building in today's dollars, and then subtracts accumulated depreciation. The income approach uses an existing or predicted income flow to establish value by means of a capitalization rate. The market approach analyzes market sales for similar properties, making the necessary adjustments for features, condition and date of sale.

The most persuasive approach in your case, and for most industrial properties on Long Island, is the market approach. This method will give you the best indicator of the worth of your own property. For the more sophisticated or expensive properties, I recommend a full demonstration appraisal. Yes, I know real estate brokers can provide you with comparable sales. However, a licensed appraiser familiar with industrial properties will not only document those comparables, but will also help you assemble all the information that will be necessary in marketing the property. The appraisal may also catch some items that need addressing before the marketing commences.

Once you have established a market value, which is the price that you should be able to achieve in the open marketplace, you can give some thought to an asking price. This is an area where an experienced and active broker can best assist you. The theory is to establish a price that is high enough to allow for negotiation, but not so high that potential buyers refuse to view the property. There is no magic formula. A 100,000 s/f building should be marketed differently than one of 10,000 s/f, and the asking price will reflect that difference. A broker who is active in the market will have some definite ideas about what should be asked and what can be achieved. It would not be overkill to solicit opinions from three different brokers. And definitely ask them to back up their opinions with comparable sales, as well as the amount of time each comparable property remained on the market. Avoid a common mistake in setting a real estate price: basing the price on either a preconceived idea of value or perhaps some element of your cost in the building. Trust me, the market doesn't care what you think or what you paid for the property. I tell my clients, "I can lie to you, you can lie to yourself, but the market never lies."

Follow these guidelines and there is an excellent chance that you will have maximized the sale price when you finally close.

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