4 ways to sweeten a commercial property deal

By Gary Palmer

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Selling a commercial property can be a challenge in difficult economic times, particularly in the current environment where many companies have left the office to work from home. But there are more ways than simply lowering the price to entice a suitable buyer. Here are four ways to improve your likelihood of a sale.

Gary Palmer, CEO of Paragon Lending Solutions

1. Offer rental guarantees

Rental guarantees are designed for the benefit of buyers and would usually be put in place to mitigate rental income risk and incentivise a buyer to commit to a transaction. The seller of a property guarantees some - or all - of the rental income for an agreed period of time once the buyer has taken transfer of the property. This means that the seller remains responsible for any rental income that the buyer can't collect, depending on the terms.

A rental guarantee can be accomplished by withholding the amount of the guarantee in full from the purchase price of the property and placing it in escrow or in a trust account where it can be managed and paid out at agreed intervals.

2. Consider warranties

Sellers can offer buyers a warranty on the property structure. For example, the seller will take financial responsibility for any building repairs for a period of time. This can bring peace of mind to buyers, particularly as any faults on the property might be difficult to spot immediately. The assurance that comes with the seller's warranty can also speed up the buyer's decision to commit.

3. Arrange for a sale and leaseback agreement

Sellers can sell a property and remain on the premises as a tenant. This is called a sale and leaseback agreement and is becoming a distinct trend in commercial property transactions. Essentially, the seller agrees to be a long-term tenant of the property, easing some concerns for the buyer. Securing a tenant is often a large part of the success of a commercial property transaction, so with the right conditions, this can be a good option.

Some sellers may simply be looking for working capital, so raising funds on their bonded or paid-off commercial properties can be a lucrative prospect. It's essential of course to find a buyer who understands the business otherwise it can attract risks, like having a different vision for the use of the property.

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4. Try a vendor loan

In this instance, the seller leaves some money in the transaction, so in effect the new buyer still owes the seller money. The seller is just leaving some 'skin in the game', but it can also help to convince the buyer and spread the risk if the buyer's initial outlay is reduced in this way.

Commercial property is typically more liquid than residential, depending on the yield. It doesn't only come down to tenant occupancy, but how much it costs to run a property. Commercial tenants tend to cover the costs of running a property, so property ownership can be fruitful combined with rental income. It's that potential for income – and paying tenants - that most investors are looking for, especially with interest rates as low as they currently are.

Sellers are urged to get creative and to be more flexible in their terms. There is a buyer out there, it may just take some patience and reorganising what is on offer, to successfully make the sale.

ABOUT THE AUTHOR

Gary Palmer, CEO of Paragon Lending Solutions