

Unsolicited Offers For Commercial Real Estate

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October 19, 2020

524 views|Oct 19, 2020,10:30am EDT

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Real Estate

I write about commercial real estate negotiations, deals and legal issues.





Beware of unknown callers promising stupendous purchase prices for commercial real estate.
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Even in today's uncertain commercial real estate market, long-term family owners of commercial real estate often get phone calls or emails out of the blue from someone offering to buy their property. Often those communications include a very impressive number that the caller says it would probably be willing to pay. The caller typically wants to make a quick off-market deal by getting the owner's attention quickly with a big number.

It's not always clear whether the caller is a principal or a broker. Even if the caller sounds like a principal, if you ask some questions it becomes clear they're just trying to put together a deal. If they succeed, they will go out and find someone to take over the deal. But their number is still pretty impressive so maybe it's worth a conversation.

If it gets to that point, the would-be buyer (or maybe broker) then starts asking questions. What is the unit mix? How much is the rent roll? When do the leases end? How much are the operating expenses? When was the roof replaced? The boiler? Buildings are complicated, so anyone trying to find out more about them can ask an almost endless series of questions.

If an owner is well organized, then it will have all the necessary information readily available. Many long-term family owners of real estate are, however, not that well organized. So just gathering the necessary information, and answering questions, can quickly become a full time job. Each question answered seems to lead to another new question.

At the end of the process, of course, the possible buyer figures out that the high purchase price that launched the conversation is just not realistic. So the proposed price comes down. In many cases, that's the end of it: a waste of time that merely taught the owner the importance of trying to maintain organized files, perhaps even digitally now that we are two decades into the 21st Century.

In some cases, though, the process and the possibilities may have whetted the owner's interest enough that the owner sticks with it. That will be particularly likely if the owner consists of a group of second- or third-generation family members, some of whom would rather sell out than stay in the real estate business. In the last few years, that has become a particularly common refrain in New York City in response to the state and city campaigns against real estate. If members of the owner group disagree on whether to sell, the very act of discussing it may bring simmering tensions to the boiling point.

If an owner receives unsolicited offers regularly, it might keep having the same conversations again and again with prospective purchasers or their brokers until one of the callers finally decides to make a serious offer at an attractive number. The owner might take that seriously and move toward a contract. The owner might even negotiate with two or three possible buyers at once, playing them against one another to try to make the best possible deal.

Often, each of those prospective buyers acts through a broker, who may at some point in the process argue that it was able to bring about a meeting of the minds, even if the parties never actually signed a contract. The broker might then be able to claim a commission, even if the owner decides not to sell or to sell to someone else. It's an exposure that arises whenever an owner decides to deal with a succession of brokers, each bringing one prospective purchaser to the table and none having any long-term relationship with the owner. Careful legal work can prevent the problem.

Once in a while, an owner actually does find a buyer and does close a sale through the process described in this article. More often, though, an owner who has gone through this process repeatedly will decide, after a while, either not to sell at all or to sell in a much more systematic and well organized way. That will typically involve signing an exclusive with an established broker who has broad access to potential buyers.

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