-Commercial Property Advisors Presents-

How to Come With an Offer Price

Here are 2 ways to help you decide what price to offer:

Comparable Properties Method

Find 3 or more commercial properties that were sold within the last 12 months, preferably 6 months or earlier, that are comparable to your property. Being comparable means that they are similar in year-built, number of units or square footage, classification, located within 3-5 miles to each other, and have similar amenities.

Now that you've found several comparable properties, calculate what each apartment unit costs as a unit or if it's a retail of office, then the dollar per square foot. In other words, divide the sold price by the total number of units or square footage. You will come up with a $xx,000 per unit or $x per square foot figure. Do this for all three comparable properties.

Next, compute the average of the three. Now, write down the lowest sales comparison of the three. And get the highest, too.

To come up with a sales price, the lowest price you may want to offer is your lowest comparable. The highest you may want to offer is the highest comparable. The average price may be a good starting point.

NOI Method

Note: this method requires that you have completed and understood basic property analysis from the previous chapter Manuals.

First of all, obtain the going capitalization rate (cap rate) for the property's area. Your best bet to get this would be from a local and knowledgeable commercial broker.

Second, calculate the net operating income (NOI) of the property using the "actual" income and expenses, not the proforma income and expense information from the broker.

Third, recall that the cap rate is equal to the NOI divided by the offer price. Next, flip that equation to: Offer price is equal to NOI divided by the cap rate. In this formula, you have the NOI and the cap rate (which is the going cap rate you obtained earlier). *Voila!*

You're not finished yet, however. What you have computed was your "middle offer price". The "lower offer price" is to be computed the same way, except that you are to increase the cap rate by 1%. Go ahead and compute that right now. The "higher offer price" is to be computed the same way, but go ahead and reduce the cap rate by 1%. Go ahead and compute that number too.

Now, you have a "low" offer, a "middle" offer, and a "high" offer. Your offer price will be within this range.

Three, before making the offer, call the agent (or seller) first to tell them you have an offer on the way. When making blind offers, sometimes you may offend the seller with a low price, so good communication will be key.

Finally, when making these types of offers, anticipate a counter-offer. After all, this is a blind offer and you are doing your best with the limited information supplied to you.

Making the Offer

There are basically two ways of making offers to purchase commercial real estate. One is by a **sales contract**. Another name for it is the purchase and sale agreement. The other is with a **letter-of-intent** or commonly referred to as an **LOI**.

The sales contract is most commonly used to make offers. Your real estate agent will provide a contract for you. If you are not using an agent and are dealing with the seller directly, it is advisable to still use a sales contract to protect yourself. In this case, it is suggested to go to your local real estate board or local attorney to get a hold of one. Do not use the purchase and sale contracts found in office supply stores. We find them to be very deficient in contract law and consumer protection, as well as being outdated. Also, do only use contracts for the state in which the property is located. In other words, do not use a California contract in the state of Colorado.

A word on contracts

In law, a contract is a binding legal agreement that is enforceable in a court of law or by binding arbitration. That is to say, a contract is an exchange of promises with a specific remedy for breach. In other words, once a contract is signed by both buyer and seller, it becomes a legally binding agreement with action items both the buyer and seller promise to carry out. And if those promises are not carried out, there are consequences.

A good contract

Please take note that a good and fair contract should protect both the buyer and the seller as equally as possible. Some contracts drawn up by the seller's attorney can be skewed to the seller's side. Before you sign any contract, bring it to the attention of a trusted and more experienced advisor for a review.

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