

# Commercial Property Cash-flow Masterclass

## **Exit Strategies**

This Masterclass we are focusing on Exit Strategies and How to frame your thinking about when to sell a property.

### **Exit Strategies**

How to Sell for Great Capital Gains -

So you can reinvest in another property or add that money to your lifestyle.

Commercial property is yield driven. Remember when you purchased- you purchased with yield in your calculations - ie. how much cashflow it generates.

## Selling For Capital Gains

### **Setting Up For The Sale To Attract Buyers**

- When setting it up for sale, you want set your property up to attract buyers....
- Make sure your lease is in place
- If your lease is about to expire- make sure you get a new lease written & signed up for that tenant
- Make sure you have options in your lease
- Options make your lease look longer and more favourable
- Option of 2 or 3 years gives your tenant option to extend the lease and gives your buyers the appearance that tenants may stay on longer
- Adds peace of mind to a new buyer, that the options are there and they don't have to draw up a new lease in a couple of years, because the tenant can exercise the option and stay on
- Makes it more "Set & Forget"
- Make sure any major repairs have been done on the premise
- Any roof leaks...
- Carpet replaced
- Make a minimal effort to get them done
- If major repairs - you don't have the cash for, then don't stress about getting these done
- Research past sale prices in the area- What is the likely price you could get?
- Selling prices in terms of return and yield
- Is it feasible for you to sell at this rate?...
- If Yields too high and you may not get the price you want... you may hold off and try selling in 6 to 12 months

- If Yields are lower, then it means you can sell at a higher price- this might be a good time to sell.

## Sales Agents

- Meet with sales agents
- How do they approach the selling process?
- Different agencies have a different way of selling
- Colliers, Knight Frank, Century 21, Ray White etc
- They just specialise in selling commercial property
- Have a database of buyers
- Ask them to show you comparative sales
- Commission is usually 2-3% depending on the price of your property
- Discuss marketing plan with sales agent
- Its important to know what type of marketing and advertising they will put into motion to sell your property and any additional costs you will incur
- Discuss the best form of selling – auction, expression of interest, private treaty
- So if you are in the CBD an auction could be a good way to sell if it's a “Hot” market
- Expression of Interest- is waiting for the market to respond to you- trying to gauge what the market is willing to offer - often good for higher priced property
- Private Treaty- Advertising to public

## The Right Time To Sell

- Time to sell in the middle of your lease
- If you can time it, so you have a minimum of 1 to 2 years left on your lease
- Attractive to buyers- Because it's easy to manage and possibly a Set & Forget property for that 1 to 2 years.
- If less than 12 months remaining on your lease- buyers can feel a bit nervous, because they don't know if the tenant is staying or not when paying a high price
- If more than 12 months the left on the lease, buyers feel more comfortable
- It's like something they can deal with down the track- not for their immediate attention
- Sell at a lower yield than you brought it from
- eg. If you bought it at 9%, you will probably want to sell at 7.5% to 8%
- This way, you will get higher capital gains
- That yield will be dependent on the local area of your property
- And it will depend on how good you are at negotiating with your agent and finding the right buyer
- Sell using the best sales method

- Auction – for a hot market
- Expression of Interest – for high price property
- Private Treaty – Regional

## Case Study

### **Helen's Personal Example - Pitt Street Sydney**

- Brought at 8.5% Yield in 2012 - whole office floor with 16 individual tenancies
- Built up the tenancy – filled up all the vacancies in the office floor- returning 11%
- Sold it to a buyer at 6.5% in 2015 - this buyer was really happy, because residential yields in Sydney CBD were about 3% gross at the time- and other commercial properties were selling at 5%-6% yields
- No lease renewals for minimum of 12 months - More attractive to buyers
- There were options and the property -is well managed- made it easier to sell
- Why would some buyers buy at 6.5% instead of the 8.5% you purchased at?
- Many buyers are not educated on commercial property like you.
- They may only be used to residential property and they make direct comparisons to this.
- They are buying shares on the share market and not getting good returns
- So get excited about the future possibilities!

