

VAALER COMMERCIAL REAL ESTATE

THE TWELVE MONTHS BEFORE YOU SELL

*What to fix, clean up, and document
before your property goes to market.*

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PREPARED FOR

OWNER

PROPERTY

TARGET MARKETING DATE

DATE PREPARED

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Why Twelve Months

Most owners call a broker when they have decided to sell. By then the price is largely already set — not by the market, but by decisions made over the previous several years and by a file that is missing half of what a buyer will ask for.

Commercial property is priced off net operating income. A buyer takes your NOI, applies a cap rate, and that is your number. Everything in this book exists to do one of two things: raise the NOI a buyer will actually credit you for, or remove a reason for them to discount it.

THE ARITHMETIC, PLAINLY

Suppose your property produces \$200,000 of net operating income and comparable properties trade at a 7 percent cap rate. Price is NOI divided by cap rate: $\$200,000 \div 0.07 =$ about \$2,857,000.

Now suppose over twelve months you renew a tenant who was month-to-month, recover \$18,000 of CAM you had been absorbing, and stop running a personal vehicle through the property's expenses at \$6,000 a year. NOI becomes \$224,000. At the same 7 percent cap rate, that is roughly \$3,200,000.

WHAT THAT MEANS

Twenty-four thousand dollars of additional annual income moved the value by roughly \$343,000.

At a 7 percent cap rate, every recurring dollar of NOI is worth about fourteen dollars of price.

That is the entire argument for starting early. Nothing else in the process has that kind of leverage.

The reverse is equally true. A dollar of NOI a buyer refuses to credit — because the lease is expiring, the tenant is weak, or the expense history is unclear — costs you the same fourteen dollars.

THE THREE THINGS BUYERS PAY A PREMIUM FOR

- Income they believe. Signed leases with term remaining, tenants who pay on time, and a rent roll that matches the bank statements.
- A file that is complete. Every lease, every amendment, every reconciliation, ready on day one. A buyer who has to chase documents assumes there is a reason they are missing.
- No surprises. Problems disclosed early get negotiated. Problems discovered in week six of due diligence get re-traded, and they cost more than they should.

AND THE THREE THINGS THAT COST YOU

- Short lease term. A tenant with eleven months left is treated by most buyers and every lender as a vacancy waiting to happen.
- Deferred maintenance that shows. Buyers discount visible neglect by more than the repair would have cost, because they assume there is more they cannot see.
- A messy financial history. If your operating statements cannot be reconciled, a buyer stops trusting the whole file — including the parts that are accurate.

None of this requires you to spend heavily. Most of the highest-return work in this book costs time and attention rather than money.

How To Use This Book

The work is organized as a countdown. Find where you are and start there — but read the twelve-month section either way, because it holds the items that cannot be compressed.

THE COUNTDOWN

12
MONTHS OUT

The lease and financial work. This is where the value is made, and it is the only section that genuinely needs a year.

6
MONTHS OUT

Documentation, physical assessment, and the decisions about what to repair.

3
MONTHS OUT

Assembling the package, pricing, and pre-clearing what buyers will find.

1
MONTH OUT

Final positioning, marketing materials, and going to market.

IF YOU HAVE LESS THAN TWELVE MONTHS

You can still sell well. You will simply have fewer levers. Work backward from your date, do the lease and financial items first regardless of what the countdown says, and accept that some value was decided before you started. Tell me your real timeline and I will tell you honestly what is still worth doing.

BEFORE YOU START

TARGET MARKETING DATE

TARGET CLOSING DATE

WHY ARE YOU SELLING? (THIS SHAPES EVERYTHING ELSE — BE CANDID.)

IS YOUR TIMING FLEXIBLE?

ANY DEADLINE DRIVING IT?

Twelve Months Out

12 MONTHS

The lease file and the financial file. This is where price is actually made.

If you do nothing else in this book, do this section. Every item here either raises NOI or makes NOI believable, and none of it can be done quickly.

A. LEASE CLEANUP

Missing amendments are the most common problem in a commercial lease file, and they surface at the worst possible moment.

Task	Start By	Done	Who
Pull every lease and read it — the original plus every amendment, exhibit, and side letter			
Build a list of what is missing and start hunting for it now, not during due diligence			
Confirm every amendment is signed by both parties			
Reconcile each lease against what the tenant actually pays — find the discrepancies now			
Identify every tenant with less than 24 months of term remaining			
Identify every month-to-month tenant			
Confirm who has renewal options, at what rent, and on what notice			
Find any right of first refusal or purchase option — these can kill a sale			
Note any co-tenancy, exclusive use, or go-dark provisions			
Check whether any lease restricts your ability to sell or requires tenant notice			
Locate all guaranties and confirm they are still enforceable			
Document every security deposit and where the money actually is			

B. EXTEND AND RENEW

A renewal signed the month before listing is worth far more than the same renewal signed the month after a contract.

Task	Start By	Done	Who
Approach month-to-month tenants about a term lease			
Approach tenants inside 24 months about early renewal			
Decide whether below-market rents should be raised now or left as buyer upside			
Get renewals signed before you go to market, not during escrow			
Move any tenant you would not want to inherit, if there is time to re-tenant			
Put any handshake arrangement in writing			

C. THE ESTOPPEL DRY RUN

Estoppels are the single most common cause of a delayed commercial closing. Running them early turns a crisis into paperwork.

Task	Start By	Done	Who
Circulate estoppel certificates now, a year early, as a routine landlord matter			
Compare each response against your lease file			
Resolve every discrepancy while there is no transaction pressure			
Note which tenants are slow or difficult to reach — plan around them later			
Fix the underlying lease document where an estoppel reveals a gap			

D. THE FINANCIAL FILE

Every dollar of expense that does not belong to the property is worth roughly fourteen dollars of price at a 7 percent cap rate. Clean books are not bookkeeping — they are proceeds.

Task	Start By	Done	Who
Assemble three full years of operating statements			
Reconcile the rent roll to the bank deposits, month by month			
Complete CAM and NNN reconciliations for the last two years			
Bill and collect any CAM you have been absorbing			
Separate capital expenditures from operating expenses — buyers and lenders treat them differently			
Remove personal or owner-benefit expenses from the property's books going forward			
Document any expense that is unusual, one-time, or will not continue for a buyer			
Confirm real estate taxes are current and check whether an assessment appeal is worth filing			
Review insurance — a stale or overpriced policy depresses NOI unnecessarily			
Produce a clean trailing twelve-month statement you would be comfortable handing to a lender			

WORKSHEET · YOUR LEASE EXPOSURE

Tenant	Sq Ft	Rent/SF	Expires	Options?	Action Before Listing

Tenant	Sq Ft	Rent/SF	Expires	Options?	Action Before Listing

Which tenant most needs to be resolved before you go to market, and why?

Six Months Out

6 MONTHS

Documentation and the physical property. Decide what to fix and what to disclose.

E. BUILD THE DUE DILIGENCE FILE NOW

Assemble it before you list. A buyer who receives a complete package in week one behaves differently than one who receives it in week four.

Task	Start By	Done	Who
Certified rent roll, signed and dated			
All leases, amendments, and guaranties in one organized place			
Three years of operating statements plus current year to date			
CAM reconciliations and the methodology behind them			
Paid tax bills for three years			
Current insurance policies and loss history			
Service and maintenance contracts, with notice provisions flagged			
Existing survey and title policy			
Environmental reports, if any exist			
Warranties still in force			
As-built plans and construction drawings			
Certificates of occupancy for every space			
Entity documents proving who has authority to sell			

F. KNOW WHAT A BUYER WILL FIND

The point is not to hide anything. It is to know everything the buyer will know, before they know it, so you control how it enters the conversation.

Task	Start By	Done	Who
Commission your own property condition assessment			
Order a Phase I environmental if there is any industrial or fuel history			
Have the roof inspected and get remaining life in writing			
Have HVAC, electrical, and plumbing assessed			
Confirm there are no open permits or code violations			

Task	Start By	Done	Who
Verify parking count meets current code			
Confirm ADA status and get an estimate for anything material			
Check the flood zone designation			
Update or recertify the survey if it is more than a few years old			

THE REPAIR DECISION

Not every defect should be repaired before listing. Use three questions:

- Does it show? Visible neglect gets discounted by more than it costs to fix. Paint, parking lot striping, landscaping, and signage return more than they cost, nearly every time.
- Does it scare a lender? Roof, structure, and life safety issues can hold up financing entirely. Fix these or price for them deliberately.
- Is it cheaper to fix or to credit? A \$40,000 roof you repair yourself costs \$40,000. The same roof discovered in due diligence often costs \$60,000 or more in re-trade, because the buyer is now pricing risk rather than a bid.

Some things are better left alone and disclosed. A functional but dated interior is usually not worth renovating for a buyer who intends to re-tenant anyway.

WORKSHEET · REPAIR DECISIONS

Item	Est. Cost	Fix	Disclose	Decision By

TOTAL BUDGETED FOR PRE-LISTING WORK

COMPLETED BY

Three Months Out

3 MONTHS

Pricing, packaging, and clearing the path.

G. ESTABLISH VALUE

Price off verified NOI, not aspirational NOI. A price a buyer's lender cannot support wastes sixty days and costs you the best buyer.

Task	Start By	Done	Who
Broker Opinion of Value based on current, verified NOI			
Review recent comparable sales and what actually closed versus what was asked			
Understand where cap rates are today for this property type and this market			
Model what the property is worth at several cap rates, not one			
Decide list price strategy — at market, above with room, or priced to create competition			
Know your walk-away number before the first offer arrives			

H. CLEAR THE PATH

Every one of these takes longer than owners expect, and every one of them can delay a closing if left until there is a buyer waiting.

Task	Start By	Done	Who
Order a title search on yourself and resolve anything unexpected			
Obtain payoff figures and confirm any prepayment penalty			
Confirm whether your loan is assumable and whether that is an asset or an obstacle			
Resolve any lien, judgment, or open permit			
Confirm entity good standing in the state			
Get authority to sell documented — resolutions, consents, signatures			
If a 1031 exchange is planned, engage a Qualified Intermediary before you have a contract			
Meet with your CPA on the actual tax consequence of the sale			

I. DECISIONS TO MAKE NOW

Task	Start By	Done	Who
Which service contracts should terminate at closing, and what notice do they require			
Whether the current property manager stays through the transition			
Whether tenants will be told, and when, and by whom			

	Task	Start By	Done	Who
	Whether you will consider seller financing			
	What personal property conveys			
	Whether any portion of the property is being retained or carved out			

WORKSHEET · WHAT IS IT WORTH
VERIFIED TRAILING 12-MONTH NOI
ADJUSTED / FORWARD NOI

At 6.0% Cap	At 6.5% Cap	At 7.0% Cap	At 7.5% Cap

YOUR TARGET PRICE
YOUR WALK-AWAY NUMBER

One Month Out

1 MONTH

Presentation and going to market.

J. MAKE IT SHOW WELL

This is the cheapest work in the book and the most visible. A buyer forms an opinion in the first ninety seconds on site.

Task	Start By	Done	Who
Deep clean common areas, entries, and restrooms			
Restripe the parking lot and repair potholes			
Refresh landscaping and clear anything overgrown			
Repair or replace damaged signage			
Fix every burned-out light, inside and out			
Remove trash, abandoned equipment, and stored materials			
Ask tenants to tidy visible storefronts and windows			
Touch up paint at entries and high-traffic areas			

K. THE MARKETING PACKAGE

Task	Start By	Done	Who
Professional photography, including aerial			
Site plan and floor plans, clean and legible			
Current certified rent roll			
Trailing twelve-month operating statement			
Lease abstracts for every tenant			
Property description with accurate square footage and year built			
Demographics and traffic counts			
Confidentiality agreement for the full financial package			
Decide what is public and what requires an executed NDA			

L. BEFORE THE FIRST SHOWING

	Task	Start By	Done	Who
	Agree how showings will be handled and how much notice tenants get			
	Decide who speaks to tenants, and make sure it is only that person			
	Have the due diligence file ready to send the day an offer is accepted			
	Confirm your attorney is available and briefed			
	Confirm your CPA is available if a 1031 becomes live			
	Agree how offers will be presented and evaluated			
	Set expectations on timing — a commercial sale is measured in months			

WORKSHEET · READY TO LIST

Is every document a buyer will ask for already in one folder?

Is the income on the rent roll fully supported by signed leases?

Is there anything you would not want a buyer to discover on their own?

What is the one thing most likely to complicate this sale, and what is the plan for it?

What To Ask Your Broker

Bring these to any broker you interview, including me. The answers will tell you more than the listing presentation will.

What is my property worth today, and what specifically did you base that on?

Which of my leases will a buyer or lender have a problem with?

What would you fix before listing, and what would you leave alone?

Who is the likely buyer for this property, and how will you reach them?

What has sold nearby recently, and what did it actually close at?

How long should this realistically take from listing to closing?

What would make you tell me not to sell right now?

Your Plan

The short version. Bring this page to our next meeting.

MY TARGET

MARKETING DATE

CLOSING DATE

MY TOP FIVE ITEMS

#	Item	By When	Who
1			
2			
3			
4			
5			

The single biggest thing standing between this property and a clean sale

What I need from my broker

NEXT MEETING

WITH

NOTES

NOTES

NOTES

***The price was set long before
the property went to market.***

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*The examples in this book are illustrative. Cap rates, values, and tax consequences vary by property and market.
This is not legal, tax, or investment advice. Consult your attorney and CPA before acting.*