Negotiating tips when buying and leasing commercial property

If you're looking to invest in commercial property but are unsure how to tackle buying and leasing, read on as *Patrick Bright* reveals the best approach

To invest well in commercial property, you need to look at it as a numbers game rather than an emotional purchase. Firstly, (assuming you have found a property you want to by) you need to set your maximum or 'walk away' price that you're prepared to pay.

To do this, you need to:

- Know your minimum acceptable yield
- Have completed your research on the current market rent for the location/type of property

Many commercial buildings are sold by auction or expressions of interest, and the negotiation process is fairly similar to buying residential property.

Here are some tips to help you get the best results from the negotiation process.

Negotiating to buy

1. The vendor's motivation

One detail to find out from the beginning is if the property is tenanted or vacant. A vendor is likely to be more motivated to sell if their property is vacant, because commercial property is usually empty for many months at a time in between leases.

Naturally, a vendor that doesn't have any income coming in is often more willing to give you a far better deal than a vendor who has a solid tenant in their property.

2. Cash is king

If you're a cash buyer then you have a lot more negotiating power than you may think, especially when buying commercial or industrial property. Time is money and if you can offer a quick settlement then you're in the box seat.

3. Silence is golden

One of the most powerful negotiating weapons is the ability to say very little, if anything at all. The less you say the better. Most selling agents find silence very uncomfortable. They also usually know more about the vendor and their motivation to sell than they plan to let on. But if you ask questions and shut up while they answer, they may spill the beans.

4. Information is power

When it comes time to negotiate, the more information you have about the vendor, the property and the market the better. If you've done the necessary research you'll know the value of the property, what you can do with it, the vendor's motivation, their timeframe and hopefully any specific leverage points you can negotiate on.

If you're aware of their needs you can structure your offer in a way that benefits them. Remember that price is never as important as the terms and conditions. Find out why they are selling, if it's a forced sale and how soon they need the proceeds from the sale.

If you don't have the time or means to gather all the information that will lead to a successful outcome then I suggest you engage the services of an exclusive buyers agent to assist you.

5. Turning a NO into a YES

If during negotiation you receive a pretty strong 'no', always ask: "Well, what can you do?" or "What would be acceptable, then?" As far as I am concerned, a 'no' just means I have discovered one of the vendor's objections and I need to restructure or present my offer again in another way.

6. Time

Always put a timeframe on your offers. This communicates that you're serious. It's also a subconscious control tactic and I use it to test how keen the vendor is to sell. If they meet my timeframe when responding to offers then I know they're taking me seriously and are keen to do a deal on (or close to) my terms.

7. Vendor deadlines

If you discover the vendor's sale deadline early on in negotiations you can negotiate on a bunch of non-essential terms to stall them. As their deadline draws closer they will be more eager to get the details sorted out.

8. Keep other options in mind

When negotiating, your body language, the words you use and the tone and confidence in your voice can reveal how much you want to own the property. So sometimes you need a bit of camouflage. Even if this is the only property you're considering, when you're negotiating always try to keep an alternative property in the back of your mind. It will help you not to appear too keen.

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9. Don't move too quickly

Every now and again I come across a suitable property that is priced right on or below market value. The good news is you can often wrap up the deal quickly at a great price. The bad news is if you go in too quickly or if the vendor gets the impression you're really keen they might re-think the sale and the price.

Negotiating a lease

Because the value of commercial property is linked to the rental return, negotiating rents is of great concern to the commercial landlord.

A prospective tenant will consider the following things when negotiating a lease:

- rent
- rent-free period
- outgoings
- length of lease
- bond

1. Outgoings

As a landlord you can negotiate the rent and rent-free period. The outgoings are variable and paid by the tenant. You should not enter into negotiations on these. Some tenants will try this on, but just ignore it as outgoings are a separate issue. However, you should consider how much the typical outgoings are when you buy a commercial property, and choose one with low running costs.

2. Rent-free periods

Most commercial property leases have a rent-free period negotiated into them. It's showing good faith to give the tenant some time to set up their business without having to worry about paying rent before they've begun trading. Tenants usually expect or ask for one month rent free for each year of the lease. I would adjust any rent free on current market conditions, supply and demand that is.

3. Trade-off

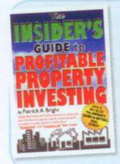
As a landlord you can negotiate a trade-off between the rent and rent-free period. If a tenant wants a rent-free period, then you're much better off negotiating a higher rental after this time.

The alternative is not to give a rent-free period but to discount the total rent by a proportional amount. In this case it means that you will be receiving income from day one and you reduce your risk of not receiving any income if the tenant's business fails early on.

4. Short-term leases

If your property has been vacant for some time and there's no long term tenant on the horizon you might consider signing a short-term lease. Generally, it's start-up businesses that request short-term leases. They don't want a long-term lease because they know that they may go bust or expand quickly and need bigger premises.

Since you'd prefer a long-term tenant, it's reasonable to charge a premium for a 12-month lease, without a rent-free period. ■



The Insider's Guide to Profitable Property Investing

Extracts taken from Patrick Bright's best-selling book, *The Insider's Guide to Profitable Property Investing*. He is a buyers agent and property investor. www.epspropertysearch.com.au/home/default.asp?MenuID=3