Please take a moment to review the valuable content in our newsletter.

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After a Business Sells – Then What?

When a business sells, both the Buyer and Seller will experience a change in their lives. For the buyer, they will immerse themself in transition to ownership. This will include learning everything needed to know in order to operate the Business. It's learning a lot of new things and putting in a lot of long hours.

For the seller, what happens after the sale could include many things. Once a sale is complete, 99% of the time the seller is asked or required to assist the buyer with transition to ownership. The transition period could be as short as a month or up to a year. But what happens after a transition?

It's hard to operate a Business. Owners manage it by dealing with employees, customers, vendors, bankers, accounting and legal professionals which is not always fun. What they leave behind after closing are the things they don't like to deal with. A frequent comment from Sellers after a sale is "what a relief" to not have the responsibility of running the Business.

We do keep in touch with both buyers and sellers after a sale. Buyers may have questions or concerns and we provide a conduit after the purchase. Sellers usually have plans for what they will do after the sale. They mention spending more time with family and friends, travel and sight-seeing, boating, fishing, golf, you name it! Working, doing something else, is rarely mentioned.

What we don't hear from sellers is regret that they sold. The regret we hear most often is "I should have

Real Estate Transfer Issues

Part 2 of 2

Obtaining a real estate appraisal is an important step in preparing for a business sale

Given the nature of commercial real estate's fluidity in perceived valuations, it's almost impossible to successfully negotiate a business acquisition because the buyer cannot get comfortable with the cost of occupancy he will face. With that much uncertainty, buyers have a very difficult time moving forward. The real estate appraisal is one of the most important preparation steps for selling a business because it addresses an obstacle that is sure to arise.

Should you sell or lease your real estate to the buyer?

It's usually best to allow the buyer to decide. If you require a sale, you may lose a legitimate buyer and vice versa. If the buyer leases, you have additional monthly income, or you can turn around and sell the property to a real estate investor. If you prefer a lease for the monthly income, but the buyer prefers to buy the facility, you can invest the proceeds in another piece of commercial real estate. Or, you can finance the buyer's acquisition of the real estate and have a recurring monthly income with a lien on the real estate.

Phase 1 Environmental Site Assessments

In addition to lenders requiring appraisals before completion of a commercial real estate sale, in certain industries, they will also require a Phase 1 Environmental Site Assessment, which can be very time-consuming and create a huge obstacle. As suggested in earlier issues of this newsletter series, it is best to disclose known obstacles upfront. If you own a manufacturing business, a wholesale business handling chemical, petroleum, or automobile products, a dry cleaner, a gas station, or an automotive repair shop, you may be affected. Other types of businesses that might be affected include pest control, transportation, equipment rental, golf courses, skiing facilities, marinas, death care services, etc. The examples provided are not all-inclusive. One source to research for affected industries is appendix 4 of the SBA Standard Operating Procedures, SOP 50 10 5(C). If you suspect a Phase 1 Environmental Site Assessment may be required to sell your commercial real estate, obtain professional advice from environmental engineers before you decide to put your business on the market.

An example of the difficulty ascertaining the FMV of commercial real estate

done this years ago!" I have also often seen comments on Facebook stating, "Many sellers leave millions of dollars on the table causing them to regret their exit." Our experience is actually the opposite. As for the sale price, sellers evaluate price and terms and agree to sell after considering input from their accountants, attorneys, and yes, from us. They don't have regrets as they understand what is fair for them and the buyer. The businesses do not sell for more or less than they are worth as both parties have access to valuable information.

Don't regret waiting too long to sell. And don't do it without the guidance of professionals. Contact us to discuss the process and possible outcome.

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Here is a personal example. An elderly owner wanted to sell his manufacturing business and the multi-story facility it occupied along a major highway. Before hiring me to handle both, he had a commercial real estate agent trying to sell only the real estate, without a professional appraisal, for $1,100,000. Based on my real estate research, I thought the real estate might be overpriced a little and suggested it might only be worth about $1,000,000, but told him I would not accept the listing for the business and building unless he had the real estate appraised. Here's the most important bit of information that we discovered later: the appraiser had access to information that neither I nor the other real estate agent had. The key was location, location, location. With the real estate located so close to the highway, it appraised at $1,400,000, substantially more than estimates provided by qualified real estate agents. With the appraisal providing the cost of occupancy, we were able to set a realistic price for the business and sold both in a reasonable time that was acceptable to all concerned.

NEXT ISSUE

Bad Timing - Waiting too Long to Sell

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