



# ***MAKING THE DEAL HAPPEN***

***From letter of intent to move-in: avoiding the deal killers***

***(Focused on managing transactions through property sales)***

## **I. CLEARLY DEFINE THE CLIENT'S GOALS AND OBJECTIVES IN THE LOI**

- Entity
- Space required
- Commencement Date (Lease, Rent and Occupancy)
- Lease term in years
- Identification of rental rate
- Real Estate Taxes & Operating Expenses (including Operating Expense exclusions)
- Financial escalation
- Tenant concessions
- Governmental Economic Incentives
- Expansion space required and timing
- Contraction space required and timing
- Renewal options/termination options
- Sublease and assignment rights
- Tenant credit/securitization issues
- Parking requirements and charges
- Supplemental building services required and related charges
- Signage requirements

## **II. ENSURE THE CLIENT UNDERSTANDS THE IMPACT OF THE LOI**

- Economic
- Physical and operational
- Strategic



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## III. MANAGE THE CLIENT'S EXPECTATIONS THROUGHOUT THE PROCESS

- Listen
  - Don't promise what you can't deliver
  - Honestly depict both sides of the issues
  - Bring solutions, not problems to the table
- A. What happens when an LOI is being negotiated or signed and the property is sold?
1. Will the LOI be honored by the buyer?
  2. What assumptions did the buyer use to underwrite the property?
  3. What did the seller disclose to the buyers?
  4. What advice is the selling broker providing to the seller/buyer?
  5. Will the timing of the building sale interrupt key dates of the transaction? Does the tenant need to go back to market?
- B. Ownership Types and Deal Structure
1. REIT's (private and public)
  2. Value Added/Opportunity Funds
  3. High Leverage/individuals
  4. Pension Funds, Insurance Companies, Core Funds

### **Tenant Perspective**

- Generally, tenants want to achieve best available market terms, low flat rate, predictable rent increase, good concession package (free rent, TI allowances, bas building improvements), quality management with competitive expenses for such services





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## **Owner's Perspective (During Transition of Sale)**

- **REITs**-Both public and private are generally focused on occupancy and predictability of income (funds from operations (FFO)) tend to not be leaders in rate or large concession packages in market
- **Opportunity Funds (Value Add) Buyers**- Shorter term hold (generally 4-7 years); trend is 2-3 years of hold; tend to lead market in high rates and willing to provide above market TI and free rent; goal is to capitalize NOI in 2-3 years and are less concerned with occupancy; largest type of buyer today; often during purchase deals are re-structured to reflect new owner's goals
- **High Leverage/Individuals**- In general are concerned with costs going in to deals and focused on debt coverage; few buyers today due to debt market crisis, typically hard to make deals due to lender approvals and often have very little equity in building; shorter hold perspective, timing players
- **Pension Funds, Insurance Companies, Core Funds**- Usually longer term holders, conservative underwriting, focused on occupancy, credit of tenant, have not been able to compete today but look to quality and relationship with tenants, patient and proactive during purchase



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## **IV. COORDINATE WITH ALL PARTICIPANTS IN THE TRANSACTION**

- Utilize a team approach
  - Stay involved thru move in
  - Monitor the project costs to ensure economic success of project
- A. During Marketing Phase of Asset Sale**
1. Landlord and Tenant brokers need to be very careful on seller expectations, disclosures and communication with potential buyers
  2. Landlord brokers need to be cognizant of marketing agents knowledge of asset, position and on-going issues with new tenants pursuing the asset and existing tenant issues
  3. Tenant representatives need to expect change, numerous inquiries from potential buyers, understand potential friction points of new buyers during sale; strategy for different buyer types must be understood; often can be uncertain time period
  4. Landlord Brokers must over-communicate to avoid loss of leasing momentum, landlord broker may or may not be retained post-sale
- B. When Buyer is Identified and Closing is Set**
1. Due diligence-disclosure of tenant concerns; economics, intentions to future renewal, expansion, contraction or management issues
  2. Understanding new buyers objectives; building capital, economic expectations and personnel
  3. Timing-Trend towards shorter close periods; 10-45 days traditionally
  4. Restructure or validation of LOI
  5. Retention of existing management and leasing teams; new legal, accounting procedures, operations





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## V. CLOSE THE DOOR

- All issues are resolved
- Documentation complete and distributed
- Invoices paid and allowances disbursed

THE JOHN BUCK COMPANY



HOLLYDURAN  
REAL ESTATE PARTNERS LLC