NEW YORK REAL ESTATE JOURNAL

Tuesday, April 13, 1999

COVERING THE ENTIRE STATE OF NEW YORK

By Don Catalano, Corporate Realty Consultants, Inc.

Five common mistakes people make when they look for commercial space

Here are five of the most common mistakes people make in finding commercial space.

1. Not employing an unbiased expert

A real estate transaction can be one of the largest financial decisions a company can make. Example: If a company was buying a jet worth $5 million you can bet that they would learn all there is to know about it. Yet a real estate transaction can easily be just as significant an investment ($20 per s/f x 25,000 s/f = $500,000 per year x 10 years = $5 million.) You need to have a specialist on your side to develop all the options, analyze and compare them, and finally to make recommendations. This expert should meet the following criteria:

- Loyalty to you exclusively
- Certified expertise
- Proven track record

2. Not thoroughly Researching the market

It cannot be stressed enough that there is a direct correlation between the price paid and the number of opportunities that are known to the tenant/purchaser. Simply put, the more bidders there are for your tenancy the lower the price.

Market Intelligence = Money Saved

3. Not asking the right questions

Not asking the right questions can lead to costly mistakes. For example, a broker who didn't know to ask the right questions was representing a tenant. He didn't ask about floor loading and the tenant had a requirement for 50 legal file cabinets (each weighs approximately 450 lbs. full). The cost to reinforce the floor after the transaction was negotiated was over $100,000.

To assure that each bidder for our client is asked all the right questions we use a comprehensive nine page Request For Proposal (RFP). This RFP can be customized for each client's specific needs.

4. Negotiating on Your Own Behalf

"A doctor that treats himself has a fool for a patient." Even expert negotiators need to use a third party to handle a negotiation of importance. The desire for a particular property can cloud the clear headedness that is required for effective negotiations.

Just as important as not negotiating your own "close to the heart" transaction, you want to be sure that your negotiator has absolutely no conflict of interest. For example, if your advisor represents landlords in the target market, that would be a clear conflict of interest.

5. Not Evaluating a Purchase Scenario

Under the right circumstances ownership has the strong advantages of tax sheltering, equity, cash flow and potential appreciation. However, the decision to own vs. rent is complex and one should seek expert advice. Some of the factors, beyond the acquisition cost, are:

- The Tax Ramifications of Ownership – which are unique to each investor's income and tax situation.
- The Return of Investment for the Real Estate vs. the Other Potential Returns – for example, a business may be growing so fast that they actually get a higher return by keeping the money in the business.
- Estimated holding period of investment
- Market dynamics
- Plans for growth
- Need for liquidity

It's common sense that you wouldn't go into court without have the best attorney at your side, nor would you go to the IRS without your accountant. It then follows that you use the best real estate expertise you can find in your real estate transactions. Happy hunting.

Don Catalano, SIOR, CCIM is the president of Corporate Realty Consultants, Melville, N.Y. CRC specializes in tenant/purchaser representation nationally .