

To Sell or Not to Sell, That is the Question



Admiral continues to expand its consulting services to investment groups, individual real estate investors and families, providing the quantitative and qualitative analyses needed for strategic planning. Services include generating concise, easy-to-read cash flow projections, which summarize the key data needed to make informed decisions about whether to buy, sell or refinance. Such information is essential to decision makers, particularly when consensus is needed between multiple partners or family members.

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In one example, two sisters inherited a functionally obsolete property occupied by single tenant. When the tenant vacated, the sisters found themselves unable to lease the property as-is and did not know whether to lower the asking rent, invest significantly in the building to make it more marketable, or sell the property.

To help the sisters make an informed decision, Admiral generated cash flow models for the three different scenarios and reviewed the risk profile of each. The final analysis showed that reinvestment in the building was not only the riskiest of the three scenarios, it was also the least profitable. The remaining options, selling the building or leasing the space at a lower rent, had similar returns. As a result, the client's final decision to sell the building was determined by their preference to reduce real estate exposure, given their existing investment portfolios and need for diversification.

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In another situation, three partners planned to sell their property. They intended to cash in on the property's significant appreciation, but first wanted to evaluate their reinvestment options, principally as it related to retirement and estate planning.

To help the partners compare their options, Admiral analyzed four scenarios on an after-tax basis: (1) maintaining property ownership, (2) refinancing the property, (3) selling the property and reinvesting proceeds in the capital markets and (4) selling the property and reinvesting proceeds in a 1031 exchange property.

The results of the analysis surprised the partners: despite a strong sales market, the combination of transaction costs, tax liabilities and limited reinvestment options made selling the property the least profitable alternative. The partners agreed that given the projected returns of the 2nd scenario, it was not worth incurring the financial risk of placing debt on the property, in part since the loan terms could become an impediment once they decided to sell. However, the partners were able to set a dollar amount at which they would be willing to sell the property in 5-10 years, and simultaneously formulated a capital improvement plan to add value to the building, which would begin 1-2 years prior to offering it for sale.

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Admiral Real Estate Services Corp. is a full-service leasing, property management and advisory firm. Based in Westchester, the company currently manages and/or leases a portfolio of over 80 retail, office, residential and development properties in the New York metropolitan area.