

Six Mistakes to Avoid When Purchasing an Office Building

1. OVERPAYING FOR A BUILDING BECAUSE THE FINANCING IS TOO GOOD TO BE TRUE.

Do not let financing drive your purchase. When rates are artificially low, it is easy to overpay for a property. Rates ebb and flow through business cycles so be sure you have an exit strategy in place if you should need to sell. Check building comparables and lease rates to be sure your cost to occupy the building is in line with the market.

2. BEWARE OF TWO-STORY BUILDINGS WITH NO ELEVATOR.

A building second story can have virtually no value to many businesses if it is not handicap accessible. The Americans With Disabilities Act has imposed many encumbrances on building owners, and elevators have become a necessary feature for most two-story buildings. If you choose to buy a two-story building with no elevator, be sure you can accommodate a handicap person on the first floor.

3. DO YOU HAVE ENOUGH PARKING?

Most county and some city codes require a minimum of four (4) parking spaces per 1,000 square feet of total building floor area. Medical uses require a minimum of five (5) parking spaces per 1,000 square feet of total building floor area. Don't cut yourself short on parking because it may severely limit your potential buyers or tenants down the road.

4. HAVE YOU DONE ALL THE NECESSARY DUE DILIGENCE?

Before you buy, there are some mandatory due diligence items that must be addressed. These are as follows: zoning compliance, POD compliance, environmental phase one study, property survey, title review, physical property inspection. There are many additional items that can be addressed in order to ensure the property will suit your requirements.

5. HAVE YOU INCLUDED RESERVES IN YOUR ANALYSIS?

Quite often, sellers and seller's representatives will exclude capital expenses and expense reserves from the property operating expense statement. It is important to remember that when purchasing a building, many of its features will become physically and functionally obsolete over time. One of the best methods to ensure that you are prepared for such costs as: roof repairs, air conditioning compressors, parking lot re-surfacing, and exterior painting, is to include a reserve amount in your budgeting operating expense statement. Typically, these reserves can range from a minimum of \$.25 per square foot to a high of a \$1.00 per square foot, depending on the age of the building and condition of the building at time of purchase.

6. LOCATION, LOCATION, LOCATION!

How appealing will the geographic location of the property you buy be 10 years down the road? The value of your property can be dramatically impacted by its location. What may be perceived as a reasonable location today may not be attractive five or ten years down the road. A good gauge to evaluate your location is to conduct a market study of rental rates for commercial property in the subject area. Are lease rates in comparable properties projected to escalate in the subject area? Have lease rates declined in the subject area? Ultimately, a building's value is largely determined by the capitalization rate of the net income stream that the building generates. I have developed a spreadsheet for analyzing the cost of occupancy versus the purchase price for office buildings. This analysis is an excellent tool to evaluate whether you are overpaying for a building.