Selling a business WITH REAL ESTATE

The opportunity for selling a business and property together will be both a financial and strategic consideration

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Selling your business can be a successful, organized process or it can be stressful and out of control, with money left on the table. Compound that with the sale of land and buildings and you have even more to consider.

Only you know when it is time to sell. But are you ready to commit to planning 1-2 years in advance so as to best position your business for sale?

Empowered business owners will seek the advice of a qualified business broker or advisor to define a business exit plan.

When done well, this plan will be dynamic should sale timing coincide with an economic downturn, health issues or some other issue.

Typically, the initial exercise is to normalize the financials and adjust for discretionary and non-operational expenses, thereby defining the true earnings capacity of the business. Factors such as industry experience, current market conditions, future growth, etc. will also be considered.

In general, potential buyers will want a sound and accurate presentation of your financial picture, including:

- Business earnings
- Company assets
- Present value of future earnings
- Discretionary cash flow
- Employ required management
- Debt service capacity
- Return on invested capital
- Growth potential

Real estate

Should you sell the real property at the same time as selling the business? Fundamentally, operating a business is far more complex than real property.

Licensed business brokers or other professionals might assess property value using the following parameters:

- Convert current earnings directly into expression of market value (Cap rate)
- Review of comparable market data
- Apply market value rent to the business valuation to normalize operating performance.

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Here are some considerations:

In some cases, real estate is an intrinsic part of enterprise performance and valuation; for example, motels, care facilities, nurseries, etc. Certain enterprises also may have structural, market proximity and other attributes that make the real property sale strategically significant. These value drivers should be identified in the business valuation and reflected in fair market property appraisals.

A buyer (more often than not) will seek to acquire both entities and benefit from additional financing options.

Retiring business owners may also not want the task of managing an investment property, including dealing with tenants and maintenance.

A plausible scenario may exist where market demand for real estate is booming while the demand for the business is weak. To extract cash from your holdings, an option may be to sell the property and agree on a lease-back to operate on those premises with the buyer. The focus should then be to enhance business value for sale at a later date.

Another alternative is to sell your business, negotiate a market-base lease with the buyer and collect income while holding the property. This will reduce the amount of capital required by a purchaser and potentially create a wider market for the business. The owner can then sell the building with the market rent lease in place and the buyer does not have to be someone who wants to run or own the business. This results in a potentially larger group of purchasers and the building sells for a higher price than could have been realized if sold with the business.

While selling a business and real property is done often, it is often done incorrectly. Ideally, the goal is to sell the business before selling the real estate or, if it's listed in combination, at the same time. ■

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