

The Boiron Report

“It is not enough to have a good mind. The main thing is to use it well.” – Rene Descartes

SELLING A LEASED PROPERTY FOR MAXIMUM PRICE

Prepare a sales package to give to potential buyers. It should include, at the very least, the following items:

- a rent roll
- three years of the property’s financial statements
- a data sheet
- a location map
- an aerial colour photo, and
- few ground colour photos.

Your sales package should answer any question, or meet any objection, a buyer may have before it is even formulated. You want your property to project a professional, reassuring image that promises no surprises. Another advantage of this approach is that it will allow conditional periods to be shorter. All these things should bring you a faster sale and a premium price.

CAPITALIZATION RATE (CAP RATE OR CR)

“Yield” and “Cap Rate” are often used synonymously. The Cap Rate is a ratio expressing the logical relationship between the value of the property and the net income it produces. A Cap Rate comparison is the most common method used to compare income properties and it is a simple formula: Net Operating Income (NOI) divided by the Asking (or Selling) Price or Market Value. The Cap Rate is always expressed as a percentage and it disregards any financing.

For example, if an \$800,000 property generates \$100,000 in annual rental income, the Cap Rate would be 12.5% as in the following example:

$$\begin{aligned}\text{Cap Rate} &= \text{NOI/Market Value} \\ &= \$100,000/\$800,000 \\ &= 0.125 \text{ or } 12.50\%\end{aligned}$$

The greatest advantage of the Cap Rate is that it permits financial comparison of markedly different investments. Because income can take different forms, there are actually different Cap Rates applicable to various forms of income. Generally when you hear the term “Cap Rate”, the speaker is referring to the Overall Cap Rate. This is the Cap Rate for an improved property, also called “blended” because it includes two components — the rate of return on the money invested in both the land and the building (Discount Rate (DR)) and a rate of return of the money invested in the building alone, which is a wasting asset (recapture rate).

The blended rate:

- expresses the relationship between the current year’s net income and the property value
- represents a blend of the rate of return on the investment and of the rate of return of the investment
- disregards debt and income tax, and
- assumes an all-cash purchase.

This formula can also be used to calculate the value of a property if you have the other two variables. Drawing from the previous example, where the NOI is \$100,000 and the Cap Rate is 12.5% or 0.125, the value of the property is calculated as follows:

$$\begin{aligned}\text{Value} &= \text{NOI/Cap Rate} \\ &= \$100,000/.125 \\ &= \$800,000\end{aligned}$$

Selecting the most appropriate Cap Rate is the most important step in determining an accurate value for a property (and it is

never easy).

Consider the impact of the Cap Rate in the following two scenarios, assuming a Net Income of \$500,000.

Scenario #1 - Value, using a Cap Rate of 7%

$$\begin{aligned}&= 500,000/0.07 \\ &= \$7,142,857\end{aligned}$$

Scenario #2 – Value, using a Cap Rate of 8%

$$\begin{aligned}&= \$500,000/0.08 \\ &= \$6,250,000\end{aligned}$$

By using the higher Cap Rate, the value of the property (what you would pay for it) has decreased by \$892,857.

These concepts, and many more, can be found in *Commercial Real Estate Investing in Canada*.

See www.realestator.ca.

Hot Listings

Retail Space in Barrie

[\\$11.95/sq.ft. – 1,140 sq.ft.](#)

Barrie Plaza for Sale

[\\$1,080,000 – 7.59% Cap Rate](#)

Retail Space - Lawrence Ave E. Toronto

[650sq ft., 1267 sq. ft., 1917 sq. ft.](#)

87, 000 SF Shopping Centre

[\\$14.5 M – 7.5% Cap Rate](#)

[Pristine 40,000 sf ind. prop. For sale vacant, or Sale and Leaseback, in excellent Mississauga location.](#)

Investors

We are looking for people interested in participating in land development. Minimum: \$300,000

Subdivision For Sale - Meaford Haven: We will soon have a subdivision for sale in Meaford (25 minutes west of Collingwood). It is a Three Seasons Community®, on 38 acres, comprising 106 bungalows (in clusters), 168 condominium apartments in 3 storey buildings with elevator, a 130 unit Retirement Residence and a 24,000 sq ft medical centre. Approval of the draft plan is expected in July. Pre-marketing of the homes is underway and looks promising. If interested, send us an email and we will contact you. See www.meafordhaven.ca for details.

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