

# Dealing with Deals

By Steve Bergsman | Sponsored by SIOR Foundation

Recently, Brad Kitchen, SIOR, president of Alterra Real Estate Advisors in Columbus, Ohio, noticed that one of the brokers in his office was having trouble closing a deal. The property was a medical office building and Alterra was representing the buyer. The deal, which appeared simple enough, kept dragging on. The broker was young and inexperienced, so Kitchen decided to dive in and assist by seeing what the obstacles were. He figured it out fairly quickly: the lender just kept asking for more information. Kitchen had seen this


before—sometimes lenders, instead of being forthright and notifying you when they don't want to do the deal, will keep asking for more information until you just go away and move on to another bank, which is what Alterra did.

"Fortunately, we have good lender contacts, so we were able to line up a couple of banks that could close a deal quickly," Kitchen recalls. "But, we also had to get a contractor and an appraiser to come in immediately to give another cost estimate and appraisal. Just due

to our experience and relationships with lenders, we knew who moved the quickest. Experience and relationships got it done."

Generally, there are a couple of reasons a deal falls apart, says Allan Riorda, SIOR, president and principal of Lee & Associates in Columbia, Md. "First, there are situations outside the broker's control, such as a slumping economy, plant closings, or companies pulling back from expansion. Secondly are those





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Today's commercial real estate deals are often more complicated and time-consuming than ever before. To prevent your deals from burning up, transaction management needs to be systematic and over-communicated.

intrinsic factors that brokers have the ability to affect."


This second situation is where brokers need to focus. It's basic "transaction management," says Riorda, and it's become increasingly important since deals have many more layers and can take longer—and as any veteran broker will explain, "time kills a deal."

Leases are becoming longer, and the time frame for completing transactions seems to be dragging out. This is

especially true with larger companies that have various policies, guidelines, and reporting structures that require navigation, observes Jacob Cowles, SIOR, vice president and managing partner at Landmark Advisory Services Inc., Montreal, Canada. "Risk management and legal departments need to get on board. When you are dealing in the world of big corporations—and even big landlords—it just seems to take longer to get a deal completed."

Canada is slightly different from the United States in that instead of a letter-of-intent, commercial real estate uses a binding offer-to-lease, which helps prevent either party from walking away. So, to keep a deal moving efficiently through the process, Cowles—from a tenant representative perspective—likes to first establish the primary legal terms that are concerns to his clients, such as maintenance, repair provision, additional rent provisions, audit rights, insurance provisions, etc.





"I'll try to lock that into a binding offer-to-lease with a condition for executive management approval. Ideally, that condition would be favoring the tenant, so the landlord cannot back out of the deal," Cowles explains.

Even with all the inclusions, transactions can still fail to close in a timely manner. The key, then, is communication, says Cowles. "Communication is the absolute, most critical factor in any deal. As long as you are communicating and managing expectations, just keeping everybody updated and in the loop has always been helpful."

"Successful transaction management is a balancing act between speed and patience," adds Landon Williams, SIOR, senior vice president of Capital Markets with Cushman & Wakefield, Memphis.

"With so much going on and so many pieces between the financing, capital structure, decision making, etc., it gets really crowded and it makes deal-making longer."

"Landmines always pop up, but you can't let them blow-up the deal," Williams stresses. "The ways to avoid that are: a) use experience to anticipate those landmines before stepping on them; and b) when one does pop up, think quickly and be creative to work through the problem."

This might seem somewhat casual, but not for Williams, who takes a systematic, disciplined approach to communications throughout the deal process. "For deals I'm working on, I have a list of things I have to do every single day," he says. "I must figure out who to communicate with

on that day. There are even some days when I strategically do not communicate with anyone, though that's rare. Mostly, it's a call to the client, an e-mail to the lender, or reaching out to a broker on the other side."

## Broker Stalemates

Sadly, sometimes the problem in stalled deals is with the other broker. In a sale going sideways where he represented the seller, Riorda "found out the other broker wasn't doing anything on the other side. The contract was signed and he was just waiting for it to close so he could get his commission. So, getting to the end of the study period, we find out no appraisal had been ordered. This was a 1031 Exchange. I was representing the seller and there



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were significant implications if the property didn't sell by a certain date. We got involved, working with an appraiser and the lender to get what was needed for the checklist.”

Apparently, these kinds of incidences are not uncommon.

“As a broker, I must react to other brokers' participation or lack thereof,” says Williams. “They are typically pulling their weight, but I usually take the approach they may not be. I systematically continue communication, for example asking: Where are you on this? Who have you talked to? If the deal falls through because the other broker was irresponsible, it's as much my fault as the other broker's.”

## Key Points

The three key points in keeping deals from collapsing are communications, relationships, and being able to control the deal, says Bill Gladstone, SIOR, an office and industrial specialist with NAI CIR in Harrisburg, Pa. “You can't just be a participant; you have to be the leader of the deal, and people have to look to you as the leader.”

Gladstone works in a small market, but even there he's faced an antagonistic broker on the opposite side. “The challenge is to work that other broker into the deal so he or she feels good about it, but still follows your direction,” he says. “New brokers are sometimes thankful for your work; to seasoned brokers, you have to be respectful. If you respect them, they will let you manage the deal.”

Gladstone worked a deal recently where he was selling an older building in the Harrisburg area. The owners

were in Florida and the buyer was a fireworks company. The deal was in danger of falling apart because the local municipality was against the sale to a fireworks company. Since the private owners were in another state, Gladstone needed to get permission from the owners to proceed on their behalf while dealing with the municipality, which he did and the deal closed.

However, there are some deals that, for one reason or another, just can't be saved.

One of Cowles' clients was looking to redevelop an existing property, but before that was to happen, Cowles suggested the client look at other options—just in case. It turned out leasing made more sense than redeveloping. “The lease option looked like it was going to happen,” says Cowles. “But, the board stepped in and said, ‘we own this piece of property and we are going to redevelop.’ The board didn't want to hear anything else.”

Riorda tells this odd story: An international, healthcare-equipment firm was looking at one of the Lee & Associates listings for 150,000 square feet of space in metro Baltimore. The letter of intent was already negotiated and everyone was prepared to go to lease when the company's North American president came to tour the facility. He looked across the road from the facility, saw a large cemetery and nixed the deal, explaining, “we are in the business of helping to save lives.” ▽

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