# How to Maximize the Price When Selling a Portfolio

There are a number of factors that go into the strategy behind selling properties in a portfolio. Here are some issues to consider when attempting to maximize the total price.

The first question to ask a seller is: Why do you want to sell? If the owner is forced to sell, the motivation is clear. Death, divorce, taxes, partnership disputes and inability to pay the mortgage are just some of the reasons why owners may be forced to sell properties.

However, if the owner is a discretionary seller, there are more questions. Those include: why are you thinking about selling now; is there a strategic reason to sell today; have you maximized the potential of, and extracted the upside potential of, a particular property or portfolio of properties; and are you thinking about property type diversification.

The answers to these will help determine the motivation of the seller. After that, further analysis is required to know the appropriate strategy. Each reason for wanting to sell requires different analysis, different strategy and potentially a different approach to selling each asset or the entire portfolio.

Several owners ask: Should I sell my properties now or wait for a better market?

The answer depends on the motivation as well as what the seller is going to do with the proceeds. If the seller plans to sell and pay taxes, how mature the asset is in terms of being maximized becomes important as does where the market is in terms of its cycle. If the property has not been maximized, does the present owner want to invest the money and the time required to maximize its potential? Does the owner want to try to time the market or does the motivation to sell supersede market timing issues?

Robert Knakal.

If the seller is going to do a 1031 exchange, market timing is not an issue. If market conditions are good, the owner will sell for a better price today but will have to pay a higher price for the exchange property. If the market is suffering, the owner might sell for a lower price that they may have been able to get in years past, but the replacement property can be purchased at a lower price as well.

Then there's the question of whether to sell as a single portfolio or to break properties up. There are two main factors to consider.

The first is the type of properties that are in the portfolio and the second depends on the capital markets' performance. With regard to types, generally, portfolios of similar types of assets will sell much better than portfolios of various types.

For example, if the owner is thinking about selling a portfolio of apartment buildings, office buildings and retail, it will be difficult to find a buyer that will pay a premium for all of those assets. Generally, investors have a specific type of asset that they will pay a premium for and will require a discount if they purchase other types. Where there are different types of assets in the same portfolio, it is generally wise to break up those portfolios into smaller groups of like-kind properties.

What about if properties are all of the same type but the quality differs? Should they go as a package or be broken up?

Here, again, the theory of having an homogenous portfolio is generally the way to maximize proceeds. If there is one dog property in a portfolio of higher-quality assets, often a seller wants to include the clunker with the other assets in order to have a buyer — who really wants the higher-quality assets — overlook the clunker and purchase the entire portfolio. However, having to purchase the lower-quality asset could dissuade the buyer from purchasing the portfolio. In most cases, the seller will heavily discount the lower-quality asset anyway. In those cases, we almost always advise the seller to sell the clunker separately or find a way to enhance the asset to make it more profitable in the future.

Sometimes disaggregating portfolios is based upon factors even more subtle. For example, office buildings of similar quality may have very different weighted average lease terms. Credit quality in retail assets can be very different, and, within a multifamily portfolio, the percentage of rent-regulated units could make a difference in terms of how the portfolio should be sold. Careful scrutiny of the component assets is essential when selling the portfolio, and maximizing the total selling price, is essential also.

*Robert Knakal is chairman of New York investment sales at JLL.*