

# The Top 9 Reasons Why Owners Are Selling Today

I was having a conversation the other day with an old Wharton buddy of mine who is from out of town and not in the real estate business. His family owns a property here in New York City, which is one of those rare fee positions under a large office building in Manhattan. This property has been in his family for decades, and he is told that his family would never, ever sell the property. The income supports many family members, and each time the rent resets (it increases to 6 percent of unencumbered land value periodically) it increases greatly. When talking about all of the properties we are currently selling, he asked me why people are selling today. I told him that I don't think owners should ever sell assets—particularly if they are well located. He was shocked I said that, but I honestly believe it is true. However, our conversation circled back around to why folks are selling today. Given current market conditions, my first reaction was that many sellers were trying to time the market cycle and get out at the perceived top. After further discussion, I came up with nine other reasons why property owners are selling today. Here they are:

Old reliable **death and divorce** are



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always present in the market, and today is no different. Estates have been active sellers as tax liabilities must be satisfied and selling assets is required to meet these obligations. Divorce—both between husbands and wives as well as investment partners who no longer get along—has forced several assets to the market as well. These sellers are the best sellers because they often have no choice but to sell.

Many investors, who are not multigenerational holders, look to create value by proactively enhancing the property through

upgrading and repositioning the asset. Often when these **value-added investors have done all they feel they can do to create additional value**, they look to reap the profits they have created and deploy those resources into another asset where they can create value. Using this strategy allows for capital growth at a greater rate than simply riding the general appreciation of the broader market.

Some property owners are property rich and cash poor. Many nonprofit organizations fall into this category. With operating costs continuing to escalate, **some organizations opt to sell their real estate**

**to provide cash for ongoing operations.** It is often remarkable to see how much some of these assets are worth, while the organization occupying the property is running significant annual operating losses. Raising cash through property sales can enable the organization to focus more directly on their mission.

With tighter lending standards, some property **owners are opting to sell to raise equity for that new project** that requires more equity today than it would have required a year ago. Some of these sellers are doing reverse 1031 exchanges, but the vast majority doesn't want to buy the new property until the equity is in hand.

Some of the sellers of properties today are **realigning their portfolios.** They are selling non-core assets and deploying those dollars into properties that are more down the middle of the plate for them. This realignment can be based on size, geography, type or asset class. It is remarkable to see how much the focus of investors can change over the years, or even generations.

Vacancy and leasing risk is a double-edged sword for potential sellers. **Some owners sell because leases are about to expire** and the owner does not want to take on the leasing risk associated with renting

the vacant space.

Other **owners feel they have created value by getting a vacancy**, or several vacancies, and want to take advantage of this value-creating vacancy, and they put the property on the market.

Many sellers of development sites have either purchased the site, or assembled the site, long enough ago that the **value of the site is much higher today than when they bought it.** Lenders today are being more conservative with land loans and construction loans, meaning more equity is required. And that is only for those who qualify in the first place. Additionally, finding equity partners for development deals is much more difficult today than it has been in recent years. For these reasons, some owners of land are deciding to sell today, if they can get a compelling offer.

Lastly, we come back to market timing. Many of the **owners who are selling today believe the market is near, or at, its cyclical peak.** While it is impossible to time the market, it appears those who have sold recently, or are selling now, are likely to be happy they did not wait a year or two to do so.

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