

PURCHASING COMMERCIAL REAL ESTATE IN GEORGIA

This overview explains the various steps for selling and purchasing commercial real estate property in Georgia. Because real estate transactions differ, some terms may not apply.

YOUR INVESTMENT TEAM

Commercial real estate transactions can be complicated, fraught with potential financial and legal challenges. While certainly permissible, it's rarely a good idea to make investment decisions on your own. Rather, seek guidance from experts familiar with the local marketplace and specialized commercial real estate transactions (industrial, office, or multi-family properties, for example). Your team of experts should include a qualified tax professional, commercial real estate attorney, lender, and maybe a contractor. Add to this group a full-time commercial real estate broker who understands your real estate needs, can locate suitable properties, access and analyze financial information, and negotiate effectively on your behalf – then once accepted, guide you through the maze of inspections, surveys, financing, zoning, and other regulatory “red tape” specific to your property type. This exclusive “buyer-broker” will be your third-party advocate, representing YOU only.

HERE TO SERVE

Your real estate advisor is part of Coldwell Banker Commercial Metro Brokers, a leading member of a global commercial real estate network, and part of Georgia's largest real estate brokerage. Our associates are highly trained, supported with world-class resources to provide only the highest levels of real estate service.

Thank you for this opportunity to assist you with your commercial real estate needs!

COMMERCIAL REAL ESTATE

A STEP – BY – STEP GUIDE



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5775-D GLENRIDGE DR., STE. 100 ATLANTA, GA 30328 | (678) 320-4800

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“NOTICEABLY DIFFERENT! NOTICEABLY BETTER!”

ONE STEP AT A TIME

Before pursuing any property, you should first determine your investment objectives, available resources, and understanding of the local marketplace.

1. Buyer (Investor) Consultation

- What are your investment objectives? Immediate, or long term?
- What type of returns are you seeking? Before or after taxes? For one or multiple years?
- How much financial risk are you really willing to take?
- How deeply involved in day-to-day management are you willing to be?
- What type of commercial property are you interested in? Why?
- Which neighborhoods or “sub-markets” seem more attractive? Why?
- Will those areas support your business or type of property investment?
- Is there sufficient inventory of these property types within the desired area?
- Do local demographics and job statistics support the proposed use or rental rate?
- Desired price range? How much do you plan to invest? What amount would be cash?
- Do you require additional financing for the balance? Any personal sources?
- What services do you expect from your real estate professional?

NOTE: Your real estate broker can assist you in gathering, analyzing, and updating this important preliminary information, so you’re always on top of the market.

2. Check out several properties, and areas of town.

It’s a good idea to look at several properties before making your final choice. Many desirable properties are “off-market,” meaning they’re not formally “for sale” on traditional real estate websites, but only quietly promoted. Your broker will know about many of these “pocket” listings, or proactively contact owners of unlisted property about possible interest in selling. Take your time inspecting each prospective property. You’ll need to see “inside” each one in order to make proper comparisons – not just the physical interior (its size, accessibility, construction quality, features and amenities), but also “inside” each property’s financial performance (gross revenues, vacancy experience, expenses or reserves, for instance). Drive the area; check out other businesses, similar property types, even local residences (likely source of consumers or workers). Ask tough questions – for example, “What is the daily traffic count?” “Is the landlord doing his own maintenance and management?” Your broker should have most details, and can get straight answers to more specific questions or concerns.

3. Letter of Intent (LOI)

Many commercial transactions begin with a written Letter of Intent (LOI). While not binding, the LOI sets out the principal terms and conditions of your offer to purchase (or lease). Major “deal points” include purchase price, down payment, possession date, proposed property use, and important contingencies such as financing, zoning, or length of the “due diligence” period. The LOI will likely include confidentiality assurances that apply to both parties even if no agreement is reached. Expect a “counter offer” on your initial LOI, as back-and-forth negotiations are part of most every commercial transaction. Once agreed upon, the LOI is ready to be formalized.

4. Purchase and Sale Agreement (PSA)

The term “PSA” is common in Georgia. Other names may be substituted (Agreement of Sale, Purchase Contract). The purpose of this document is to formalize the terms and conditions of the proposed purchase. Unlike the LOI, the PSA is legally binding, setting out all of the obligations, terms and conditions of the proposed sale. Verbal understandings must be included in the PSA to have any legal effect. In addition to elaborating the major terms already agreed upon in the LOI, the PSA will specify the nature of the “property” to be conveyed (real estate, improvements, personal property, air and subterranean rights, for example). Important “what if’s” will be carefully spelled out, such as subsequent notices of real estate tax increases, special assessments, condemnation or fire loss. If agreeable, your real estate broker may complete a standardized PSA form used by most commercial REALTORS® in Georgia, along with those additional terms and conditions not in the “fine print” (often called “stipulations”). Otherwise, the seller’s or buyer’s attorney will prepare a specific purchase agreement. Regardless of the form, common provisions in every PSA include:

- **Earnest Money** (down payment or deposit) – money paid by buyer at time of the offer, plus any balance payable once the seller accepts it. Usually 10-25% of the purchase price. Earnest money is generally refundable in case important contingencies are not satisfied. Read this PSA provision carefully, including who will hold the money pending final closing.
- **Clear Title** – Sellers agree to convey free, marketable, and insurable title to the property, excepting easements, deed restrictions, and some encumbrances. Most PSA’s give the buyer a timeframe to review the title report and make objections, renegotiate the sale, or terminate the transaction. Be sure to have a competent real estate attorney carefully review the title report during this period, otherwise you may be legally obligated to complete the purchase.
- **Financing** – Commercial real estate lending differs from residential. Expect a longer approval period, lower-loan-to-value ratios, a shorter pay-back period, pre-payment penalties, higher interest rates and upfront fees. You can also expect to sign a personal guarantee should you be a new investor, or taking title through a business entity.
- **Zoning** – Classifications vary between states and counties. The PSA should specify that the proposed use will be permitted, and not restricted by deed restrictions, association regulations, etc. If rezoning or variances are needed, allow sufficient time to get them.
- **Due Diligence Period** -- In Georgia, buyers are given broader latitude to change their mind, cancel the sale, and get earnest money returned. In commercial sales, this period is longer (45-90 days) to allow more time for inspections, approvals, review of financial data, etc. During this period you should also inquire about insurance coverage on the property.

THE PENDING PERIOD

Once the PSA is fully executed, the “pending period” begins – ordering a title, survey, and beginning the mortgage application process. The “due diligence” timeframe also begins, during which you should carefully inspect the property, check title, environmental, safety, zoning and use compliance; verify leases and requested financial information, deferred maintenance, third party contracts, etc. Because your earnest money is refundable within this period, you should ensure the property meets all of your standards. After this point, you could risk the loss of your earnest money and possibly additional legal damages. Once all contractual requirements and contingencies are satisfied, you’re ready to complete final closing.

CLOSING

In Georgia, real estate closings are handled by attorneys. Ordinarily, you select the closing attorney and closing date, and both parties pay a fee to the closing attorney for its services. Prior to the closing (or settlement) date, the closing attorney will send you an estimated statement detailing the various charges, pro-rations and credits, along with wiring instructions for money transfer of remaining balances. You should review these charges beforehand with your real estate broker or attorney. At the closing, you’ll review and complete other paperwork, including loan documents; receive keys, codes, assignments of warranties, and ownership will be conveyed to you. The property is now officially yours!

