Business Buyers Want a Business, Not Property Investment

by Mark Walter, CCIM

Preparing for the Sale of the Business – Divide (the Assets) and Conquer

Owning real property for a non-real estate small business can be a negative when selling the business. The inclusion of real property in a business sale increases the absolute dollar value of the transaction. Therefore, by not separating the real estate from the operating business, the potential universe of buyers for the business is smaller. That means less numerical demand and a longer sales cycle. Also, the price or value paid for the goodwill of the business will likely be lower when real estate is included on the company's balance sheet. The major premise on this point is that the overall return on equity of a business that is not laden with real estate, will be higher than in the opposite circumstance. Therefore, the premium over tangible assets should be greater.

It is self-evident that a high return on investment warrants a premium over the tangible assets in the market place for small businesses. This is a case where the parts, sold separately, (the parts being the real estate separate from the operating assets including goodwill), will exceed their value when combined in a single transaction. Restated, the business and probably the real estate will realize a higher price when sold into their separate markets.

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