

The process of selling real estate to tenant owned associations

Daniel Wallenås, 2011-01-10

Introduction

The purpose of this essay is to describe the process both from the perspective of the owning company and also from the tenants' point of view, and also to describe how transactions usually are formed from a legal point of view. A process usually takes a year. A fast process can be done within six months.

Twelve steps in the process of selling

Chose property

The first step is to choose a property. This can be done after the property owner analyses the property and believes that there is a high likelihood of it being sold to a tenant owned association at satisfactory price. This can also be done after the tenants contact the owner about interest in buying the property.

When choosing the property, the owner decides whether or not they will use a broker.

Initial meeting

The property owner or the broker invites the tenants to a meeting. The purpose of the meeting is to inform the tenants about the different steps within the process. The tenants are given the opportunity to ask general question about it. The goal of the meeting is to get the tenants interested in continuing the process.

One way of picking out tenants that are interested is to let them fill in a paper at the end of the meeting. Those who are interested in being part of working group are invited to another meeting.

Meeting with the working group

The working group is invited about two weeks after the initial meeting. They are given the opportunity of asking more questions about the process. The working group is informed about professional agents that are on the market. The goal of the meeting is to support the working group and help them to take the next step in the process.

Choosing an estate agent

From this point onwards, the majority of the work is mostly from the tenants' side. They have to contract an estate agent that will have the contact towards the property owner.

The agent helps the working group to create a tenant association and put the working group to the Board.

Technical investigation

In order to estimate the neglected maintenance, a technical investigation is made. This is made by a professional inspector. The inspector inspects the part of the property that will be owned by the tenant association. The common areas are owned by the tenant association, such as stair cases, elevators, roof, façade, garage, water pipes, heating system and so forth. The investigation report serves as help for the tenants to assure that the neglected maintenance the first eleven years is accurate.

Price offer

When the technical investigation is submitted, the property owners suggest a price for the property. The agent helps the tenant association to analyze the offer. The total investment for the tenant association is the offered price for the property, costs for the neglected maintenance according to the technical investigation, costs for legal ratification, costs for mortgage, and costs for the agent.

The total investment can be paid in two ways. One part is paid by loan from the bank. The other part is paid by those tenants that chose to accept the offer.

The agent splits the total price of the apartments according to the estimated market value as a condominium. Usually the agent divides the price in the same proportion as the rent of an apartment, compared with the total rent at the property. Usually the agent contacts a broker of other condominium apartments in order to estimate the market price of condominiums and to estimate the discount to the market of the offered price.

After negotiations the final offer is presented to the tenant association.

Economic plan

The agent makes an economic plan based on the negotiated price. The economic plan is approved by certified professionals.

In the economic plan there is information about the management of the tenant association during the first eleven years. The result of the technical investigation is taken to account in the economic plan.

All the tenants can see what the offered price will be for them. They can also see what their expected rent will be to the tenant association in the future.

The agent invites the tenants to a meeting to inform them of what the price will be for them and what their future rent will be if they decide to buy.

Meeting to vote

The Swedish law regulates that the tenants must vote if they want to buy a property through tenants association. At the meeting more than two thirds of the holders of the apartments and commercial contracts must vote yes. The result of the vote ends up in a mandate to the Board of the tenant association to sign an acquisition contract and to fulfil the contract. Neither the yes-voters nor the no-voters are obligated to follow the vote at the day of transaction.

Signing

The day of signing of the contract is normally before the day of sale. The agents usually ask for that. This way the agent and the Board of the tenant association are given the ability to concentrate on the contract.

Post signing

After signing, the agents help the Board to sign contracts for maintenance. They also help with the contact to the banks. Both the tenant association and the tenants that chose to accept the offer borrow money. The bank that lends money to the tenant association usually makes an offer even to the tenants. The Board also works with trying to convince the uncertain tenants to also buy.

The date of sale

At the day of sale, the purchase is done. A preliminary balance sheet is set up that regulates the assets and the liabilities of the sold company. A preliminary price for the company is decided.

The Swedish regulation constitutes that you are not allowed to own an apartment in a tenant association. Instead a tenant pays money to the tenant association; in exchange he or she will be given the right to use the apartment and will be a member of the tenant association. If a member wants to move away, he or she can sell their membership to another person. The new member has to be accepted into the tenant association. Those tenants that decide not to accept the offer will remain tenants with the tenant association as the new landlord.

Post the date of sale

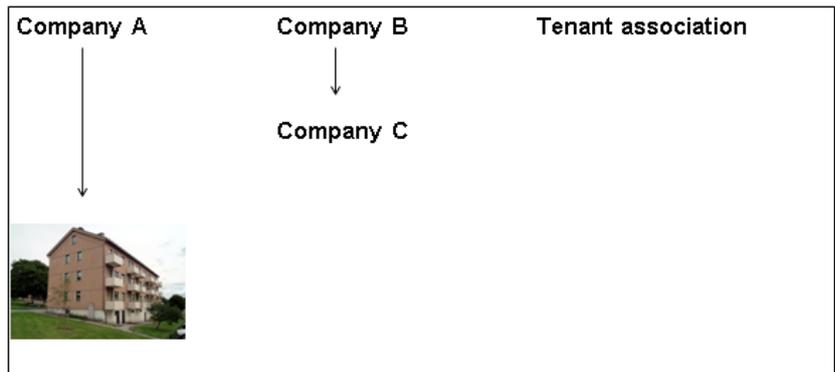
The purchase contract might contain written stipulations that the seller has to do something after the date of sale. Sometimes the seller provides a promissory note to the tenant association. The contract can also be written in a way that neglected maintenance will be paid by the seller.

Two months after the date of sale, the seller hands over an updated version of revenues and costs of the sold company per the date of sale. The tenant association then has time to inspect the bookkeeping. When the tenant association accepts it, the final price of the company is decided.

Repurchase guarantee is used on the market. The seller offers those tenants that bought their apartments on the day of transaction, the guarantee that they can sell the apartment back to the seller. This guarantee is granted because the offered price is discounted to the market and it makes the tenants feel more assured about buying.

The legal process

If selling a property at a profit, the sales tax is 26.3 percent of the profit. An option is to sell the property owning company, and then the sales tax is zero percent if the sale of companies is not a part of the owner's strategy. The most common method of selling properties is by the sale of a company. To eliminate as much tax as possible steps 1 to step 4 described below are done.

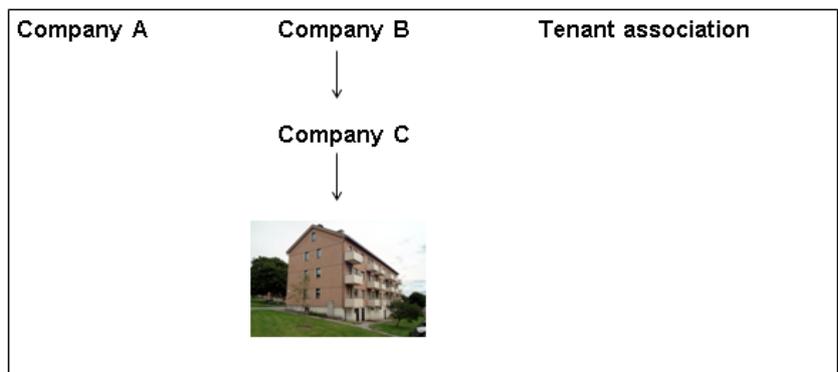


Picture 1

Company A owns the property, see picture 1. It might also own other properties that are not involved in the transaction. Company B owns company C, neither of the companies has owned a property before. Company A, Company B and Company C are in the same organization.

Step 1

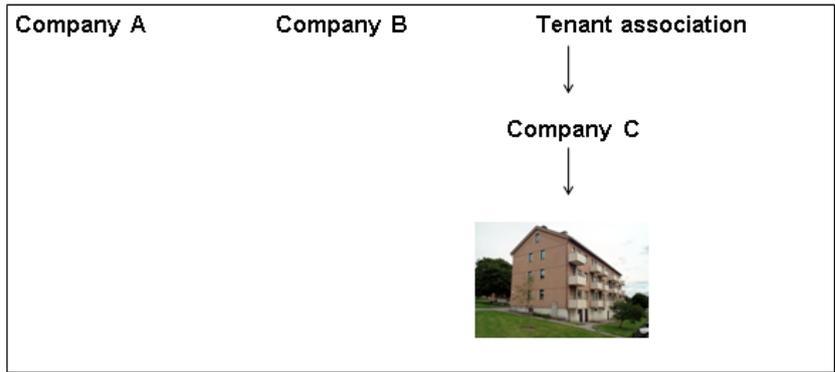
Company A sells the property to Company C for the lowest taxed value and the tax assessment value. This way Company A will pay no sales tax of the sale. The date of sale is normally one month before the date of sale to the tenant association.



Picture 2

Step 2

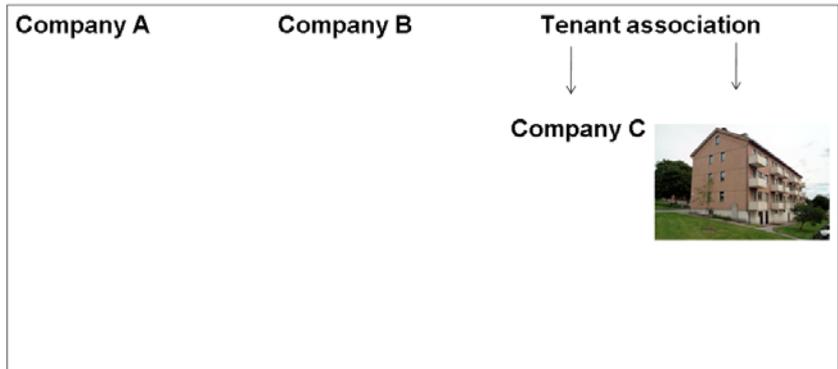
Company B sells Company C to the tenant association. Company B will pay no sales tax.



Picture 3

Step 3

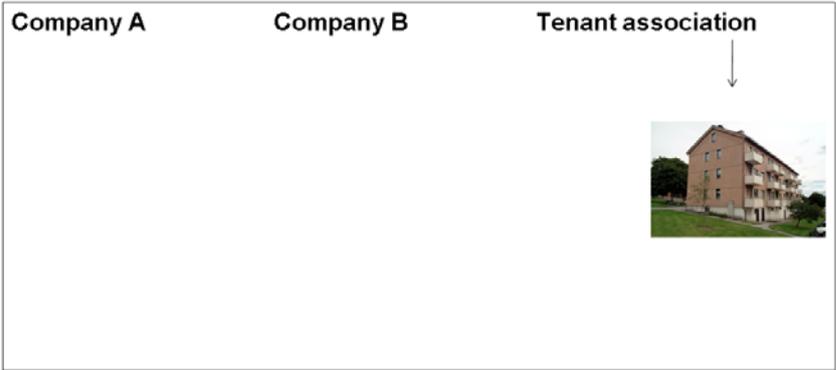
A tenant association is not allowed to own companies. This is solved in step 3 and step 4. In step 3, Company C sells the property to the tenant association. The conditions in the contract are the same as the condition in the contract of step 1. The date of sale has to be within three months from the date of sale of step 1 in order to eliminate stamp duty of step 1, this way only the tenant association has to pay stamp duty of step 3. The stamp duty is 1.5 percent of the property price for the tenant association.



Picture 4

Step 4

The tenant association liquidates Company C and does not own a company any more.



Picture 5

Group work, the process of selling real estate to tenant owned association

Daniel Wallenås, 2011-01-10

Case 1 – initial meeting in bigger cities

Your task is to simulate an initial meeting and use the facts below. The goal of the meeting is to get the tenants eager to continue the process. How would you prefer to deliver this message?

Number of apartments: 15
Average size of apartment: 65 square meter
Current rent: 1,054 SEK per square meter per year
New rent as condominium: 1,233 SEK per square meter per year
Condominium market: 18,800 SEK per square meter
Offered price: 14,000 SEK per square meter

Case 2 – Initial meeting in residential city

Your task is to simulate an initial meeting and use the facts below. The goal of the meeting is to get the tenants eager to continue the process. How would you prefer to deliver this message?

Number of apartments: 57
Average size of apartment: 55 square meter
Current rent: 1,013 SEK per square meter per year
New rent as condominium: 993 SEK per square meter per year
Condominium market: 13,200 SEK per square meter
Offered price: 10,200 SEK per square meter