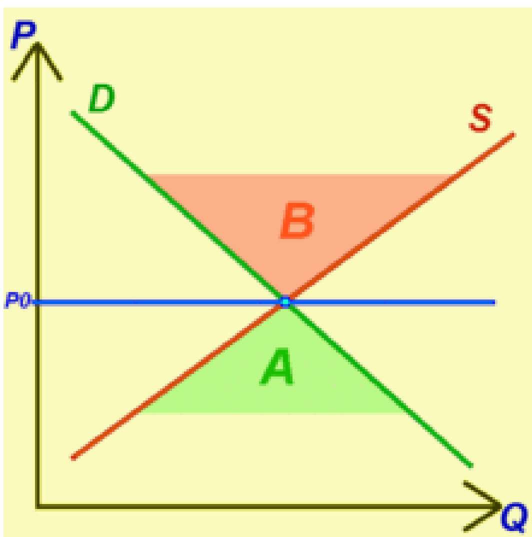
Profit Maximization in Real Estate is a Factor of Pricing, and Reducing Vacancy

A landlord maximizes profits with a combination of three goals: 1. reducing the downtime associated with vacancy. 2. Which leads to pricing the property wisely in order to 3. draw the greatest number of qualified owners and users in the Commercial market.

The goal is to reduce vacancy, and to get a property leased within a reasonable time; Wise strategies involved in pricing, include economic supply and demand analysis to your property. In real estate, the most likely price a property will sell for is measured by comparable sales. Real Estate Appraisers use the Sales Comparison method of determining value by locating sales of similar properties within the same neighborhood. These Comparable Sales identify the point in the markets where in that negotiation, the supply of real estate met the demand of a buyer and a transaction happened. Supply and Demand were equal. The comparable sales and comparable leases indicate the most likely area of negotiating the correct price in order to REDUCE VACANCY in a reasonable time.

In order to analyze the most likely rental rate a property will lease for, we look at contract rents, or what other properties have leased for as evidenced by their lease contract.



The image on my left is a profit maximization graph, where P is the price P0 is the Price Optimization or Price Equilibrium; S is the measurement of supply and D is the measurement of demand. A is the region of real estate occupancy, and B is the region of Real Estate Vacancy. If the rent is too high, and the terms are not met, the property stays in the B region.

The concept of market price optimization/equilibrium is similar to the crosshairs in hitting a target with a bow and arrow. The point in the center of the crosshairs in this graph is the target where Supply equals Demand. If the arrow is aimed too high, the arrow will travel a farther distance before it reaches the ground. A price set too high will push the time distance of acquiring a tenant with the financial ability to budget and pay higher figures off into the future.

Case Study; A representatives agent overpriced a warehouse by $700 dollars per month. The property was advertised for $2500 per month with few prospects and no leases for three and a half years. The next Broker, (Expansion) reduced the price to $1800, increased the advertising and within three months the property was leased to a tenant on a 10 year lease. Every year the building was vacant it yielded $21,600 in lost opportunity cost by pricing too high to remove the downtime associated with vacancy, which was in total, left $75,600 in uncollected income over a 3.5 year period by attempting to collect an extra $700 per month in rent. Case Study: A 14000 Sq ft warehouse was handled by previous brokers who charged $3.25 per sq ft. They had no prospects or tours for THREE years. I lowered the asking rate and greatly increased the direct marketing, and we received a tenant within a three month time frame. Profit Optimization and correct pricing is standard for every product. Vacancy is the enemy, because the time value of vacancy works against maximizing profits.

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