

## 17-1 Looking from Afar

Earlier this week I was checking out some land using my primary search tools, a F150 4x4 truck and the RM map. I was taking notes on ease of access, current use of the property, quality of the stewardship, and distance to available utilities. Back in the office we dialed it up on Google Earth as I wanted to see how the property related to the neighbouring lands, the extent of the wetlands, drainage patterns, etc. The last few years, Mike and I have been including satellite views in our opinion of value packages for farmland and larger commercial properties to give stakeholders another perspective on the site.

Everyone knows, location is an important fundamental in real estate but nothing replaces feet on the ground using all your senses. Several years ago, an out of area landowner wanted me to represent his family in selling some river front property. He sent me some aerial footage captured from a drone as an appetizer. The acreage looked very attractive on film but when I was standing on the best, and possibly the only, building site on the parcel I couldn't help but notice it was directly across the water from a large thermal project. That was a definite mood killer! It would be difficult to convince someone to build with the view of what is essentially an industrial complex with its noise and light emissions continually encroaching.

The same "buyer beware" principle applies to other types of real estate. One of the more important aspects of buying in an urban setting is being alert to the traffic patterns. What may be a quiet address in July and August can turn into a parking lot for students attending the local high school the rest of the year. Same principle applies to locations near recreation facilities, health centres, or community halls.

If you plan to commute to work into a larger center from an acreage or perimeter community, you may want to consider the direction you will be travelling and at what time of day before you buy. I'm fortunate, I get to drive west in the morning and east back to my home in the late afternoon. The sun is always behind me and never in my eyes.

Astute business people also make choosing the right location paramount to their plans. For example, trucking companies often want to be close to bulk fuel suppliers with their 24/7 card-lock pumps. Those same bulk station operators want safe and easy access from primary haul roads for their clients and lengthy re-supply semi-trailer units. Tire shops, truck and trailer repair facilities know they will benefit from being nearby as well.

Alternatively, family restaurants prefer to locate a short walking distance from "flagged" hotels. Tourists and business travelers are known to indulge in a cold refreshment after a long day, so liquor stores and pubs will also set up in-house or next door. So, with good planning, a commercial zone develops that although highly competitive between providers of similar services, is also co-dependent on one another, helping everyone stay in business.

A similar but somewhat different approach applies to grocery and convenience stores. Several years ago, I helped one national retailer secure space in the downtown core. I was given an impressive toolkit to use before they would even come to look including an assessment of the targeted demographic (a suitable number of low or fixed income households within walking distance), open structure space in little need of improvement (a former chain store that outgrew the site), and a rental rate in the lower end of the current range for the community (due to plenty of similar available space but sparse demand for it). The store has been in place for years now and when I stop in from time to time, I am still amazed at the successful outcome the company's initial planning delivered. The place is always busy and not only that, it provides an essential service at fair prices that the local residents have come to depend on.

So, no matter what your next real estate purchase is going to be, take the time to think through what you really need and where an ideal location would be before you undertake a search. It can make the end result so much more enjoyable!

## **Bouncing Back**

I have been fortunate to meet some very interesting people in this business. The gentleman I was now sitting across from at the restaurant was one of them.

He was in his eighth decade of life but you would never know it from the spring in his step and the firmness of the handshake offered thirty minutes before.

I have been his family's Realtor for over ten years, working for not just he and his wife, but a son and daughter too.

Maybe I'm getting tired but as this economy wallows into the third year, there are days when I wonder if the region ever will fully recover.

So, after discussing his latest development plans, I asked "what keeps you going so strong?"

He chuckled, leaned forward in his chair, and said "I'm like a rubber ball; made to be thrown around, bounce off hard surfaces, and recover!"

"No one promised me being self-employed would be a picnic; in fact, you and I would probably be bored if there was no challenge."

I had to agree but what was his secret to remaining so positive?

He laughed again, and said "in one word, failure; you have to accept that it will eventually happen!"

My friend says not to dwell on it; that people shouldn't be afraid to make mistakes. It is inevitable in real estate there will be times when we buy high and sell lower. It happens in every enterprise.

Ask any entrepreneur and they will have at least one, usually more, stories of when the train they were driving went off the rails.

Some learned how to mitigate their risks by applying iron discipline to simple policies.

One trucking company owner refused to buy an additional semi until the last one was paid for.

If business slacked off, he drove the newest unit and simply parked the others until things got better.

At times, the companies he hauled for would pressure him to lower his rates by saying that there were others waiting who would.

He always refused for if they didn't recognize the consistent quality and cost efficient service his people were known for then it wasn't worth pulling for them.

This owner knew his cost of doing business and could wait out those that didn't.



He grew a fleet of eighty plus units, sold out to a larger firm, and hasn't missed the stress for a minute.

As a real estate investor, it is about always being ready to buy a property that is priced right, to hold when there is sufficient cash flow to pay expenses, and to sell once an acceptable capital return has been reached.

The ones that sleep at night save up cash for a healthy down payment and never attempt to leverage equity from one property to another.

You don't have to make a killing in the market, just steady progression.

Bottom line, it is about keeping more money than you lose over the longer term.

One of my clients took the performance bonuses he earned on several large contracts and purchased some quality farmland.

Most people would have bought a condo in Kelowna or a lakefront cabin.

Not him, it went into what was considered at the time as a relatively low return, and definitely not sexy, investment.

Today those parcels are probably worth two and half times what he paid for them.

The cash flow from annual land rents and surface leases comes in at about four percent of value, still nothing to write home about, but it beats taking calls about leaking water heaters Sunday evening or finding that a tenant has made a midnight move.

In the meantime, he has had several day jobs come and go, but those converted bonuses are still ticking along and paying the bills.

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## **Taking Care of Business**

I was in a store one day buying some supplies when the owner walked up and asked if I had time to join him in his office.

We've known each other for twenty years or more, so of course I was curious to know what was on his mind.

He told me that both he and his wife were ready for retirement.

After months of discussion, they had come to the conclusion that it was time to sell.

Would I list it for them?

I told him that I would work with them more with a joint venture attitude than as a listing as we would each have some work to do to prepare the business for sale.

Here's what I told him.

Realistic pricing is absolutely key and requires both the input of a competent accountant and experienced appraiser or commercial Realtor.

He should also ask his banker what they would say to a prospect if approached. Many buyers like to leverage the financial institution's existing knowledge of the business.

The buyer must not only have the capital to purchase the real estate but also the business inside, plus replace the management expertise and community presence of the current owner in the eyes of its customers.

The truth of the matter is clients loyal to the present owners may quickly switch once they aren't actively involved. The reverse can also happen with former clients returning with fresh ownership in place.

Owners often want to be compensated for the customer list they have built up over the years or "goodwill".

However, banks don't finance warm, fuzzy relationships.

The sale price must be developed from facts, using accepted formulas for that specific industry.

Most owners hate opening their books, even with a non-disclosure agreement in place, but a qualified buyer needs to know early on what the financial health of the business is, where the holes are, and what opportunities may exist.

And if a small business owner has been quietly pulling cash or inventory out for personal use without declaring it for taxation purposes, the story quickly gets murky.

I walk away from those; it's impossible to market a venture when the financials cannot be relied upon.

Almost all buyers need to mortgage not only land and buildings but also finance equipment, inventory and still have funds available to meet operating costs until there is some regular cash flow.

The outgoing owner usually takes the accounts receivable due at time of possession with him so the new operator must have enough money or line of credit to carry on operations until his own sales are paid for.

It is also important to know if the owners would be willing to provide some vendor take-back financing if that is necessary to complete a sale.

While there is risk, most of it can be managed if the terms are designed right.

It also sends a strong message that the owner is confident about the ability of the business to pay for itself and acts as an endorsement of the buyer.

Most owners are surprised when I tell them where most prospective buyers are to be found.

The first look should always be to the inside. Do you have an employee who has the competence to take it over if the owner was willing to remain available for a few months?

But if an owner hasn't actively planned for succession, the talented ones have probably already moved on to other enterprise.

You still shouldn't be afraid to reach out to them as maybe they would be willing to return, hopefully with some additional experience gained in another workplace.

The second is your top three competitors.

They covet your market share and may see this as an opportunity to grow their business simply through acquiring yours rather continuing to compete head-on.

The third prospect group are your supplier reps.

One small community grocery store sold to the man who delivered bread there every week.

He had observed dozens of similar establishments and knew which ones were the most desirable.

Retaining a commercial Realtor is a great first step but you will still need to be deeply involved; after all there isn't anyone who knows your business better than you!

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## **Keeping It Simple**

I guess I can't say it enough.

If you are marketing a property, whether it be residential, commercial, or bare land, if it isn't clean when the buyer views it, the resulting proceeds of the sale, should you be lucky enough to get an offer, will be significantly less than the out-of-pocket cost of bringing it up to even a modest standard.

Let's say you want to buy a used car and when you get into the one that interests you, there are cigarette butts in the ashtray, empty coffee cups and fast food wrappers on the floor, and dog hair all over the back seat.

How fast will you walk away?

The same principle applies to reputation auction sales.

There is a reason why Ritchie Bros and companies like them, want to ensure a machine looks its best before it goes over the ramp in front of potential buyers.

It pays.

Machinery dealers know this as well.

Visit any lot and I would be surprised if there was even one piece of equipment that hadn't been serviced and washed before going on display.

I toured a commercial site the other day valued at close to a million dollars.

The owner has had some health issues so I was trying hard to not add to the stress of the situation, but it is hard to ignore worn out parts and unneeded paraphernalia scattered throughout a property, especially when you are tripping over them at every turn.

If I was a buyer and viewed that scene, my immediate impression would be what other aspects of basic maintenance have been neglected?

Only scrap metal dealers see opportunity in junkyards.

Our group took on an old house that had two previous brokerages had failed to sell.

There were used tires in the yard, scraps of building material and dried up paint cans filled the garage, and worn out furniture left in the vacated home.

My condition for listing it was to ask for the property to be cleaned up, inside and out, before our sign went up.

The owners grudgingly did so, but were pleasantly surprised two months later at achieving a decent sale price.

The market hadn't changed but the presentation certainly had.

Buyers looking to make immediate gains in equity look for situations like these and are quick to make a lowball offer.

Often, they are successful.

This year I have sold several quarters of farmland that had been neglected for one reason or another.

There was nothing wrong with the soil underneath the weeds and encroaching bush but it would take a year or two of agronomic rehabilitation to bring it back to full productivity.

In each case, the buyer detailed to me the effort and cost needed then proceeded to deduct one and half to two times that figure in their offer from what we both knew was potential market value of the parcel.

I don't blame them; nobody wants to clean up someone else's mess.

I'm not asking you to live like you are being filmed for a Martha Stewart television show but when the time comes to sell, think of what the buyer wants to see.

The principle of presenting a cared-for asset to the market applies across all venues, not just real estate.

First impressions count.

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## When the Queen Comes Calling

Canadian provinces, with the exception of Quebec, abide by a legal system that has its roots in laws originally crafted centuries ago in England by the monarchy under pressure from its landowners.

The reigning King or Queen listened closely to these barons who held the economic and military might of the nation in their hands.

This system eventually evolved leading to the creation of a parliament which represented both elected officials and the hereditary lordships.

Today, in Canada, federally we have the House of Commons, Senate, Supreme Court, and the Queen's appointed Governor-General all playing in the sandbox.

In our provinces, there is a legislative assembly of elected officials in which the party with the majority forms the government. It too, theoretically, consults with the Queen's local representative, the Lieutenant-Governor.

Keeping it simple, all of this structure is intended to find a balance between the authority of the monarchy as expressed by Her Government and the rights of the common people.

What has this to do with real estate?

Well, if the Queen wants to build a super-highway through your front yard so that the nation's goods can be transported for trade or your neighbour can commute for work, she can.

Over the years this "right of eminent domain" or the ability to acquire property for the "public good" has been delegated, by federal or provincial statutes, to various public authorities, including Crown owned corporations and local municipal governments.

All that is left for the landowner is the expectation that the Queen's representative will "make the transaction whole".

The applied definition of this compensation is wide ranging – fair market value, damages for disturbance, loss of business, injury to the remaining property, and in some cases, difficulty in relocating any enterprise which may be in the way.

If landowners don't like what the Queen is initially offering they can usually advance their claim to the Court or a tribunal set out in the statute.

And this is where it gets interesting.

I'm a rancher and have in the past been approached to sell land or agree to allow our property to be used for other's purposes.

As a Realtor known for my interest in rural properties, I get a steady stream of inquiries around the valuation of land being taken up in the "public interest".



Recent examples include the impact of downstream sewage disposal by a village, construction of electrical transmission lines to serve new thermal projects, widening of municipal roadways, denial of subdivision due to long range transportation corridor planning, etc.

I've even been asked to present my views on value and the impact of the proposed project will make on the landowner's plans in front of arbitration boards.

To be frank, it can be quite frustrating.

I'm all for balanced economic development; after all, people need to work to live and provide for their families.

But I find the Queen's representatives are often quite arrogant, even uncaring, in presenting their offer. I know it is a job akin to being a tax collector.

And they certainly don't provide any insight to compensation awards in the same jurisdiction, probably as that might impact the budget handed down from above.

Just in the Midwest, some landowners exercising persistent negotiation achieve four times what others have settled for.

I don't think that is fair. People are being taken advantage of.

In one case, when expanding a road to serve an oil facility, the municipality removed a quarter mile long evergreen windbreak which had been planted and nurtured by three generations of the same family.

It could have easily shifted the road over to the empty field on the other side, but there appeared to me there was long standing animosity between the local councilor and the owners.

Those not impacted by the loss of their land and / or the ability to quietly use it, probably don't realize how emotional this can be for those owners that are.

Most times it is not about the money. It is about having some respect for the current occupant's quality of life and self-determination.

Yes, there are those who become irrational. Or those who just love a good fight. The Trans-Mountain pipeline debate is a good example of that behavior.

But most landowners just want to be listened to.

A little respect can go a long way.

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### **Midwest Minute – You Never Know When You Will Get A Life Lesson**

Two days after I turned 14, my parents and I were checked for angling licenses while on the water at Ministikwan Lake.

In the excitement of getting away from the farm for a brief summer holiday none of us had considered the fact I was now required to have a license after fishing for years as a child.

The Natural Resources officer felt compelled to carry out his duties without any flexibility, so I was handed a court summons and my fishing tackle was confiscated pending the outcome.

So, three weeks later found me in district court in Maidstone waiting for my turn to appear in front of a judge my friends had gleefully assured me was very tough on any teenagers and young adults who had the misfortune to come in front of him.

It was open court so there were the usual hangers-on there from the community to enjoy the show plus of course other budding criminals and malcontents.

The older gentleman in front of me was charged with driving without due caution and attention.

Apparently, he had backed away from a local café without looking in the rear-view mirror and rammed into the side of another car turning into the parking lot.

He seemed rather belligerent in defending his actions stating the car had not been there when he put his truck into reverse, and even went so far as to cast blame on the other driver for not watching out for him.

And that is when you could feel the air go out of the room.

The monthly observers all sat up to attention to see what would happen next.

The judge leaned forward and asked the accused if he was a father.

"Yes, I am" said the man proudly, "two girls and a boy".

"What ages are they?" inquired the judge.

"Ten, eight, and five" responded a now perplexed defendant.

"If one of them was walking across the parking lot and was struck by a driver who wasn't paying attention, would you blame the child or the adult?"

The man stood there for a minute, then mumbled something none of us could hear but we all knew he was done for.

"You must take responsibility for your actions. Next time think of who you may be hurting by what you do!"

At which point a hefty fine was levied along with several demerits against the man's license.

As I watched him shuffle out, I realized it was now my turn in front, and after the charges were read out by the attending constable, the judge asked me to comment on them.

Standing there was an uncomfortable experience, especially after what I just seen happen, but I explained the circumstances and apologized for my unintentional misdeed.

The judge looked at me, glanced at the RCMP officer, then back to me.

He asked me how many fish I had caught that day to which I responded, "two jack, sir".

"How big where they?"

"About three pounds each" I said adding for some reason "just right for eating."

He chuckled and said "well you did break the law, so I have to fine you. Ten dollars plus four dollars court charges. Pay my clerk before you leave, and she will give you a letter to send to the DNR office in Meadow Lake to get your rod and tackle box back."

"And son ... I don't want to see you in my court again."

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### **Midwest Minute – She Carried Tiger Lilies**

It was a hot summer day in early July and as I walked up the front sidewalk it was obvious the little house was suffering from significant deferred maintenance, and I wondered if there would be pails on the floor to catch last night's rain.

I had been warned by his niece the owner was a tough old dude, known to quick temper, and there was an even chance I would be shown the door within minutes of arriving if he didn't like what I had to say.

He was in his 90s' and struggling to live independently.

The yard was overgrown, and an old half ton sat in the driveway where it likely had been parked for several years.

His wife of sixty plus years had been recently admitted to a respite bed in the local care centre, and I had been told she would never return home.

The old man had asked specifically to see me as he was considering doing something with the house, either selling it or giving it to a family member, then moving into a senior's apartment within walking distance of the nursing home.

The initial reception was guarded but I was quickly offered coffee, which I interpreted as a good sign as most people we see for the first interview are so anxious the simple courtesies are often neglected.

Of course, people of his generation never entertained visitors without offering a refreshment and light lunch.

The way he prepared it was straight off the cowboy trail, with the coffee brought to boil in the tin carafe placed in a frying pan filled with water.

I did not want to know how long ago the beverage had been originally prepared, but I sure wasn't going to comment.

Our conversation that afternoon covered a lot of ground, starting with the time he came to the district as a child with his parents and brothers, after their ranch had been dried out in southern Saskatchewan, driving a herd of cattle and sleeping under the accompanying wagon.

He admitted to leaving school at twelve years of age to help on the farm. "We worked hard, and money was scarce but never did I or my brothers go to bed hungry!"

I commented on the happy young couple in the framed black and white photo hanging on the wall above the kitchen table.

He gently brought it down and pointed out the wildflowers his new wife was holding.

"It was a day like this when we got married", pausing for a moment with his moist eyes looking into the distance.

"We could barely afford to pay the preacher, but my Mary said we would see fresh tiger lilies every year at our anniversary and it would remind us of our love for each other."

It has been years since our conversation but every time I see a tiger lily growing along a trail or fence line, I can't help but think of two people's enduring commitment to each other.

And it never fails to bring a smile to my face.

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