



COMMERCIAL PROPERTY SECRETS

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Commercial Property Due Diligence





Due Diligence





“Due diligence is the mother of enduring good fortune” — Nicolle Beer

Commercial Case Study Metro CBD



Address available on request,
Kelvin Grove, QLD 4059

Warehouse, Factory & Industrial

Price information

Sale
Contact Agent

Commercial Case Study Metro CBD




Key property information

Floor area: 350 m²
Return: 8.0% p.a.
Zoning: OPP-LI - Low Impact Indus...
Tenure type: Tenanted Investment

Tenanted Investment Details


Occupancy: Fully Leased
Gross income p.a.: \$79,709
Number of Tenants: 1 Tenant
Remarks / Type: Medical Related



Due Diligence

Due Diligence Period


- Shift mindset to “Where are the hidden problems?”
 - What’s going to lose you money (or not make you as much as you expect)?
 - What’s going to be a problem for your insurer?
 - What’s going to be a problem for your lender?
 - What’s going to be a problem for future tenants or purchasing investors?
- Risk → Mitigation -> VALUE Increase
- Verify, Verify, Verify - Documents as evidence.
- Pull the Trigger!



Four Pillars of Due Diligence

- 1) Physical Property and Location
- 2) Tenancy Matters including Leases
- 3) Financials: Feasibility and Exit Strategies
- 4) Compliance: Council Approvals, Title





1) The Property and Location

- **The Location**
 - What’s next door?
 - Where is the competition?
 - Access
 - Exposure
 - Demand vs. Supply – Tenants and Buyers
- **Talk to:**
 - Tenants – building issues/ improvements they’d ideally like to see
 - Maintenance people – any issues
 - Business owners next-door e.g. Coffee shop managers or hairdressers



1) The Property and Location

- Freehold or Leasehold
- Site specific constraints e.g. overland flow / easements for access and other
- Zoning and approved usages
- Environmental Issues: Contamination / Hazardous material storage
- Multi-tenant buildings – electricity and water meters? (Hairdresser vs Newsagent)
- Tenant Mix and 'flavour' of the building



1) The Property and Location

- Building Construction and Condition – Approved? Additions?
- Asbestos Report
- Compliance – Universal access and W&HS
- Service and maintenance contracts e.g. Fire safety
- Building and Pest Inspection
- Asbestos register
- Maintenance schedules : Tenant or Landlord Responsible?



1) The Property and Location

- Body Corp / Community Title Scheme
- Levy Information
 - Body Corporate Records Search
 - Search of Body Corporate Orders
 - Copies of Service and maintenance contracts e.g. Fire safety
 - General levels of maintenance and repair of common areas
 - Body Corporate Managers



2) Tenancy Matters and Leases

- Retail or Commercial?
- Gross Lease vs Net Lease
- Always have a solicitor review carefully!
- Who is on the lease?
- Security deposit, Bonds and Rental Guarantees
- Guarantors
- Rent Reviews and dates



2) Tenancy Matters and Leases



- Options to renew
- Ratchet Clauses
- Outgoings – what and who pays?
- Incentives
- Exclusivity Clauses
- Who owns the Fit-out
- Responsibility for Maintenance
- Remediation / Reinstatement clauses

2) Tenancy Matters and Leases



- Tenant's business in growth industry?
- Competition to Tenant's business
- Outgrowing the premises?
- Insurance in place
- Permits and Licenses in place
- OHS breaches in the past

3) Financials and Feasibilities: Exit Strategies and Cashflow Analysis

- Cashflow at Asking Price
- Cashflow after applying the Cap Rate (True Value)
- Cashflow after optimising the opportunities
- Value after optimising the opportunities
- Sensitivity Analysis
- Outline exit strategies and resultant Cashflow and Value



3) Financials and Feasibility

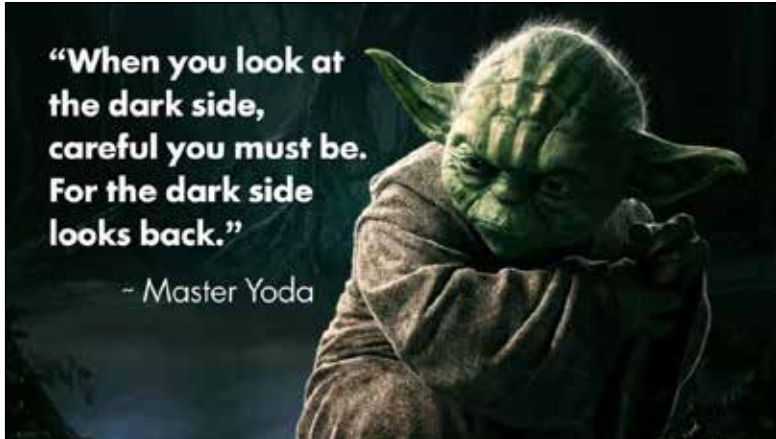
- Property Financials (P&L Statement)
 - Income sources – rent and other forms of income
 - Income – verify consistent income
 - Expenses – verify expenses, anything missing (Maintenance contracts, etc)
 - Expenses – what is recoverable and what isn't?
- Rent Roll/ Tenant Ledger – verify income and timely collection
- Current Bond/ Guarantees – do they reflect current rent
- Valuations



3) Financials and Feasibilities: Typical Outgoings

- Statutory Charges
- Council Rates; Water & Sewage
 - Land Tax
- Other Expenses
- Insurance
 - Property Management
 - Fire Detection and Emergency Lighting
 - Pest Control
 - Building Security
 - Gardening and Landscaping
 - And other expenses that are listed in your resource pdf because listing them all here would make this session boring.





Pre-Settlement DD

- a. Finance**
 - Are funds in the correct accounts ahead of Settlement date
- b. Pre-Settlement Inspection**
 - Property Condition as at Contract Stage
 - Tenants in place or Vacant
 - Fixtures and fittings in place?
 - Remediation works are complete
 - Keys, security codes and other devices are made available by agent at settlement
- c. Interview Commercial Property Managers**

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How To Take Advantage In The Current Commercial Market Landscape And What The Future Opportunities Will Be



