

Your Due Diligence Detailed Checklist Retail - Office - Warehouse

General Research and Questions to Ask The Agent

How long has the property been listed?

Why are they selling?

I've noticed the property was sold in late 2016, why did the previous owner sell?

What is the vacancy rate or % in this strip of offices/ shops / warehouses? If need be- go down the street and count all the vacant properties and the total properties and calculate the % vacant.

How does the cost per square meter compare to other retails shops sold in the area recently?

Compare Cost per square meter of rental and is this above, below or at market rate? Check Real estate websites for rental properties in the area and recent past history.

Vacant property:

Who was the previous tenant?

How long was the previous tenant in for?

How long has this property been vacant?

Tenanted property:

How long was it vacant prior to this current tenant?

Who was the previous tenant?

How long was the previous tenant in for?

Tenant Research:

In retail and warehouse and larger offices. Find out:

- How long have they been there?
- Are they established tenants with a record of rental payments on time?
- Or are they new tenants?

- Also find out if they are new to business?- Is this their first retail, warehouse office-based business?

This may be a place to negotiate on purchase price - if there is no rental history with the tenant and also of they are new to business.

With smaller offices the tenancy may be 12 monthly and there may be higher turnover of tenants, therefore may be more difficult to get this information.

- Research their business name online.
- Check out their website and social media like facebook, to see if they have an online presence.
- Do they have evidence of customers and contracts and a strong business, to make them a good solid tenant for you?

Also find out what other type of tenants would be suitable for your property.

Office:

This is easy for office space, as most offices can be re-arranged easily with simple dividing walls. Also see what other business and professionals are in that building or group of offices, so you can discuss with the agent other possible complementary businesses or services.

For example... If there is already an accountant, a real estate agent and a mortgage broker in that locality, then it would be great to get in a lawyer or conveyancer as your tenant, so they all potentially, can create a mutual hub of referral business.

Warehouse:

For warehousing, this is a little more difficult as it depending on the size of the warehouse and any zoned uses.

Again find out from the agent what the other warehouse businesses and uses are, perhaps you can have an advantage to draw in a tenant that services those types of businesses, so your tenant can have solid local business.

Retail:

Retail spaces can be retail food, retail professional or retail medical so these types are perhaps more flexible.

If there are specific fittings that already come with the shop, they may be able to be used by a different industry, for example, a beauty therapists premise may also be easily used as a massage therapist, physiotherapist, chiropractor etc.

Or... of there is a restaurant, hairdresser, and mini-market, then you may be able to attract a cafe to take care of more casual dining guests. This will depend on whether you have a grease trap in place for a food premises... so ask the agent if one already exists in the property.

(Personal experience- both our properties had new tenants that were also new to each business- with no rental history- At the time of purchase, one had had 3 months rent free and the other had had 3 months at 1/2 price rent. When it came time for us to take over and collect rent- both started paying late within the first couple of months- Their businesses were new and already struggling.)

Leases

General checklist:

- Term of lease Gross or Net + Outgoings
- Options
- Rental Increases each year (CPI, %, fixed)
- Outgoings Who pays what and how much
- Air-conditioner servicing- who pays
- Rental bond
- Guarantors

Take a careful look at the lease. What's the income and what are the outgoings. Often agents will quote a high % return based on Gross rent. You need to calculate your true Net % return. *(See appendix for a real example of a Melbourne Office)*

Excellent articles to read:

Rob Balanda September 20, 2017

<https://propertyupdate.com.au/the-bottom-line-on-commercial-leases-part-1/>
<https://propertyupdate.com.au/the-bottom-line-on-commercial-leases-part-2/>

Body Corporate Details:

Body corporate minutes and meeting details- look for upcoming expenses such as air conditioner and elevators.

Give the managing/strata managers a call and ask them:

- When was the building built? And if any renovations or additional building works were conducted, when was this done?
- Is there an asbestos report on this building? If so, I'd like to obtain a copy of it.
- Has there been a recent building inspection on xxxx? And if so, I'd like to obtain a copy of it.
- Has there been a recent pest inspection on xxxx? And if so, I'd like to obtain a copy of it.

- Is there a common air-conditioning system on this building? If so, what are the costs for maintaining each year?
- Is there a common roof for this building? If so, what is the repair protocol with the owners corporation?
- Is there any outstanding maintenance on the building due, or any special levies?

Retail - Warehouse - Office Specifics

Retail

Is there a desirable anchor tenant nearby, like a large supermarket chain that will attract customers for local business?

What other types of tenants are already in the location? To see how much competition there is for your tenant's business.

Can this retail shop property be used for other purposes such as offices- medical office - food store with grease trap? This gives you greater flexibility with attracting future tenants.

Is it a desirable size for the types of shops and businesses in the area? Is it a common size? Is it larger or smaller, to accommodate a specialised business?

How long are shops typically vacant for, in that size and location? This helps you calculate your financial needs for servicing your loan and any outgoings, should it become vacant.

Building inclusions.

Check what are part of the fixtures, fittings and chattels. You will need to know this, as these items may need to be insured and if they are your responsibility, you will need to pay for repairs and maintenance on these items.

Find out what fittings the tenant has installed and what is part of the premise originally.

Eg fitted hot water system that the previous tenant left and has now become part of the Landlord's fittings and have passed on as belonging to the landlord in the new lease and new tenant. When this breaks down, you will need to pay for it to be serviced or replaced.

Office

Size- how easy is it to lease at this size- if too small, businesses may outgrow it too quickly.

What is the competition like and what are the current office offerings like in the same building?

Eg. 1 Queens St Melbourne- is a huge building, has lots of competition for renting and buying office space, so it may take a longer time to find a tenant if it becomes vacant and may take longer to sell when you wish to sell it.

If there is an Owners Corp in a large - older building - what are the fees, what are the fees for the elevator repairs and air-conditioner repairs?

Sometimes fees for CBD offices are horrendous- so check to see if within your comfort level

What's the vacancy rate? Do some research on vacancies in the same building- use Realcommercial.com.au and look at offices for lease in the area.

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Find out what fittings the tenant has installed and what is part of the premise originally.

Eg Fitted internal walls and desks that may have become your property.

Warehouse

Location- Is it a heavy industrial area or lighter and closer to suburbs?

Does it have easy access for business suppliers - eg heavy trucks etc.

Is there Customer parking available? If there is.... This can increase the variety of tenant options for you.

Is there a highway or freeway nearby, for supplier access and customer access if required? Or is it really hard to reach?

Is there any new competition coming into the area with new warehouse developments. It's best if you can do your online research, then in-person due diligence, by driving around the area.

What type of businesses could this attract other than what it's currently used for? Are there internal facilities like plumbing and sewerage for water and toilets? This will increase desirability and tenancy options.

Warehouses that are just an empty shell - with no toilet or sink, may be more difficult to rent out, if newer warehouses suddenly get built in the area with these types of facilities.

Is there an office/ showroom / retail / mezzanine component to the warehouse, with separate warehousing facilities? This may be more versatile or attractive to different businesses who want to service customers and clients on the same site, instead of a separate retail shop shop

How long are warehouses typically vacant for in that size and location? This helps you calculate your financial needs for servicing your loan and any outgoings, should it become vacant.

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General Due Diligence

1. Demographics for supporting industry in that area.

Infrastructures like freeways, public transport, schools, new homes, more shops / offices / warehouses planned to be built- Is this a good thing? ie will it attract more people to the area- therefore better business for your tenants?

Or will it be bad for you, because there are better tenancy options for tenants therefore competition to you, as a landlord?

Generally consider suburban or country retail or office properties especially those without an 'anchor' tenant (Coles, IGA, Foodworks, Kmart etc.) to be more risky.

Flood Overlay:

<http://www.ga.gov.au/flood-study-web/#/search>

Flood maps for certain regions eg- Gippsland area floods for Victoria, and different regions in QLD eg Brisbane river and suburbs.

Bushfire Management Overlay

Fire maps for certain regions

Vic

<https://www.planning.vic.gov.au/bushfire-protection/bushfire-management-overlay>

QLD

Brisbane

<http://eplan.brisbane.qld.gov.au/CP/BushfireHazardOC>

<https://www.brisbane.qld.gov.au/planning-building/planning-guidelines-tools/brisbane-city-plan-2014/city-plan-2014-mapping/bushfire>

Rural QLD

https://www.ruralfire.qld.gov.au/Bushfire_Planning/Pages/default.aspx

NSW

<https://www.rfs.nsw.gov.au/plan-and-prepare/building-in-a-bush-fire-area>

South Australia

<https://www.sa.gov.au/topics/planning-and-property/land-and-property-development/building-rules-regulations-and-information/bushfire/bushfire-risk-assessment-tool>

Western Australia

<https://www.dfes.wa.gov.au/regulationandcompliance/bushfireproneareas/Pages/default.aspx>

Tasmania

<http://www.fire.tas.gov.au/Show?pagelD=colBuildingForBushfire>

2. Growth areas infrastructure contribution fees

You should investigate whether you will be required to pay a growth areas infrastructure contribution for the suburb of your property.

(Personal experience: There was a warehouse I was looking at in an established Melbourne suburb, which was a cross between residential and industrial suburb- and as part of my extensive due diligence, I uncovered a Levy from the council, for and additional contribution tax / fee for infrastructure contribution. This surprised me as it is an established older suburb. It reduced the Net return on the property significantly, as the tenant was not paying any of these outgoings.)

Vic

<https://www.planning.vic.gov.au/legislation-and-regulations/growth-areas-infrastructure-contribution>

NSW

<http://www.planning.nsw.gov.au/Plans-for-your-area>

QLD

<http://www.dilgp.qld.gov.au/infrastructure/local-government-infrastructure-planning-and-charging-framework-review.html>

Brisbane:

<https://www.brisbane.qld.gov.au/planning-building/applying-post-approval/infrastructure-charges/infrastructure-contributions-planning-scheme-policies>

South Australia

<https://www.sa.gov.au/topics/planning-and-property/development-plans/amendments-to-development-plans/amendments-to-development-plans-proposed-by-the-minister/approved-2015/playford-urban-growth-areas>

Western Australia

<https://www.planning.wa.gov.au/publications/1029.aspx>

3. Building structure and fixtures and fittings Inspection

Look at windows, taps, toilets appliances that belong to the building- and check to see if they work. If not- get it written into the contract for the current owner to fix.

Check ceilings and walls for holes and cracks. Consider getting a building inspection and check for asbestos (if under body corporate- ask the body corporate what asbestos reports they have on the property.)

Check for any water marks in the property like in the ceiling or kitchen area.

(Personal Experience: One Vic country freehold retail shop, I wanted to purchase, had many cracks and holes inside and out of the building. After having a building and pest inspection done, the inspector said there was a high certainty of asbestos throughout the building. A follow up asbestos report (by the owner), revealed asbestos throughout the building- some of which needed to be patched and contained and other parts which needed care if any renovations were done. I chose to walk away from this property, because I didn't want a project like that on my hands.... (See *asbestos removal cost articles in appendix.*)

4. Market trends

Check market trends, against the type of business that the tenant is operating... and ask yourself- Is this business sustainable?

Is that type of industry changing, failing, downsizing? Eg “Dick Smith” type of stores- which are folding or struggling, because much of this type of sales is now online.

Eg A Video rental shop should be just about extinct in 2017/2018- but I did see one in country Victoria that was being sold.

5. Loose items:

Are there any physical items you need to collect?

- Keys for body corporate spaces like shared toilets.
- Remote controlled doors to warehouse or back of premise entries. How many copies of the remote control are there.

Appendix

1. Use “Property Pros and Cons Checklist” as an additional tool

See separate PDF document

2. Sample letter for Building and pest inspection quote

Hello,

*I'm looking for a Pre-purchase Building and Pest inspection for a commercial **retail shop / office / warehouse** in **LOCATION**- It's operating as a **restaurant / cafe/ office/medical clinic/warehouse factory etc...***

Single story / double story

Freehold

***XX** sqm*

In addition to the main building and pest inspection, I'd like to know if there is a problem with dampness or wood rot. Do you have equipment such as thermal imaging - or moisture meters to check for this?

I'd also like to know if you see any possible asbestos- how do you report it during a routine Building inspection?

I'd like an estimate of what a Building and Pest inspection report would be.

Do you do electrical inspection and if so, can you also please quote for an electrical report?

I'm waiting for the agent to obtain keys for inspections and would love to know your flexibility and availability to inspect- as soon as it's available. How much lead time do you need for an inspection?

Do you conduct a phone call to discuss outcomes- in addition to the report?

Can you also please describe the skills, experience. Qualifications that your inspection team have.

Looking forward to hearing from you.

YOUR NAME

3. ASBESTOS REMOVAL articles

How Much Does Asbestos Removal Cost?

https://www.homeimprovementpages.com.au/article/how_much_does_asbestos_removal_cost

Last Updated Nov 6, 2015 · Written by Rob Schneider

Since a total ban on asbestos was imposed in 2003, most Australians have become aware of its dangers. However, with the passing of time, some have become complacent. Asbestos-related illnesses and deaths are rarely reported any more, many people assume that if they take minimal precautions, they can safely remove asbestos containing materials themselves.

This is a dangerous assumption because the fact is that up to 650 Australians continue to die each year from asbestos-related diseases. Even more worryingly, many children are being diagnosed with asbestos-related diseases due to exposure when renovations were being carried out in their homes.

Is Your Home at Risk?

Until 1987, most homes in Australia were built with many asbestos-containing materials. When its dangers were recognised, it was phased out, starting with the most dangerous asbestos based products, such as roofing and panelling.

If your home was built before 1987, you can assume that any renovations you do will put you at a high risk of exposure to asbestos. Aside from interior and exterior cladding and roofing materials, there are many other ways asbestos was typically put to use -- some of them well after 1987.

Some of them included:

- As insulation for wood heaters, including underneath hearths.
- In vinyl floor tiles and on the backing of vinyl floor tiles.
- Kitchen splashbacks were often made from materials containing asbestos.
- In the bathroom, asbestos sheets were used as a backing for wall tiles.
- Roof guttering, roof capping and eaves linings contained asbestos.
- Imitation brick cladding was often asbestos based.

Other places asbestos could be found included on the backs of electrical metre boards, in some sealants and adhesives used in construction, and even on ironing board covers.

Asbestos removal companies charge per square metre rather than by the hour. The rate will depend on a number of factors, including:

- The scope and difficulty of the job. For example, a steeply sloping roof is more difficult to remove than a simple shed roof.
- The distance to the tip and tipping costs. Tipping costs start at about \$450 and can be much higher.
- Large sheets of asbestos are easier to remove than large amounts of smaller asbestos materials. Some asbestos removalists estimate the cost of removing sheets at \$35 per sheet.

Asbestos removalists will look at each part of the job individually. They might charge \$40 per square metre to remove external cladding and \$50m² or more to remove asbestos roofing. The minimum charge for any asbestos removal will probably be around \$350 and larger jobs will cost less per square metre than smaller jobs.

Because there are so many variables for the asbestos removal company to consider, give them as much information as possible when you get online quotes. A relatively easy job could cost as little as \$45 per square metre, but \$100m² is not uncommon for difficult jobs and you will have transportation and tipping costs to pay as well.

Without accurate information from you, the services may give low initial quotes and have to revise them upwards, sometimes drastically, when they inspect your property.

Other Costs*

To be sure your property is safe, you may also want to pay for asbestos fibre air monitoring, which can cost \$1000 to \$1500. In some areas, you will have to pay for post-removal inspection, and perhaps air monitoring as well.

When you compare quotes for asbestos removal, price should be a minor consideration. Hire only professionals who take the greatest care. Since asbestos is most dangerous when disturbed, there is no excuse for cutting corners and allowing asbestos fibres to escape into the atmosphere.

ASBESTOS REMOVAL COSTS- BRISBANE-SYDNEY-MELBOURNE-PERTH

<http://www.asbestosremovalguide.com/asbestos-removal-cost/>

See website for cost estimates....

There are a lot of factors that can influence the cost of asbestos removal besides the amount of asbestos to be removed, things such as trees or obstacles along fence lines, accessibility, steep roof slopes, heights and location of the material, so use this price list as a rough guide only.

The only way to know for sure what a job will cost is to get quotes from real world contractors. Use the form on this site to get quotes from licensed asbestos removal contractors from your area.

Sending through photos of the work you require to be completed is the best way of getting a cheaper price. This saves the contractor having to visit your property to quote on the job.

The more square meters of asbestos you have that needs to be removed, the cheaper the price will be per square meter. So sometimes it pays to get a quote for all the asbestos on your property.

In some cases, especially in the case of internal asbestos cladding, the best choice is to leave the material in place, as long as it is not damaged and in good condition.

Painting over asbestos sheeting will seal in the fibers and can be used as an alternative to removal.

Removal of asbestos from inside housing is dangerous and generally very expensive due to the safety procedures that have to be followed and the extensive cleanup that has to be conducted after work has been complete.

If internal asbestos removal is not conducted properly your entire house will be contaminated, all the fabrics in the house will trap asbestos fibers, including your carpets, curtains, bedding, clothing, footwear, any fabric will trap asbestos fiber and become contaminated.

Where possible asbestos sheeting located inside a house should be left in place, as long as the sheeting is intact and painted it poses no risk to health.

If you wish to confirm that the inside of your house is free from asbestos contamination after work has being completed an asbestos fiber air monitoring analysis will set you back between \$1,000 to \$1,500.

External asbestos products such as fencing, roofing and external cladding are subjected to weathering. Hail storms, rain and wind, all these factors will erode asbestos sheeting releasing fibers into the surrounding environment. This erosion of asbestos will slowly contaminate the surrounding environment.

If you have small children playing in the backyard it may be wise to get rid of this hazardous material. Younger children seem to be particularly susceptible to the effects of asbestos fiber inhalation.

People who are most at risk from developing asbestos exposure health complications are females, babies and young children and smokers.

One study showed that a smoker was 80 times more likely to die from an asbestos disease than a non smoker who had similar asbestos exposure. A recent study that finished in 2004 found there was a 250% increase in asbestos related deaths, for men from exposure caused by D.I.Y renovations. In women there was an increase of 700%.

A single high dose exposure of asbestos is enough to cause health problems later in life. People have been diagnosed with mesothelioma, a cancer caused by asbestos exposure. They did not have occupational exposure to the material. Upon further investigations it is often revealed that while they were a baby or child

they had lived in an asbestos clad house that had been renovated while they were living there.

4. Office vacancy rates in Melbourne early 2018

News Melbourne- Vic:

<https://www.commercialrealestate.com.au/news/pask-family-to-develop-offices-rather-than-apartments-on-east-melbourne-site/>

“Early 2018- Falling office vacancy rates in Melbourne are encouraging more developers to undertake commercial projects – East Melbourne has the lowest office vacancy rate nationally at just 2.5 per cent, according to the latest Property Council of Australia Office Market Report.

“The office market in locations such as East Melbourne, Cremorne, Abbotsford and Fitzroy continues to go from strength to strength, particularly in terms of tenants willing to pre-commit to space,” he said.”

5. Melbourne Office - Example of poor return.

Personal Example:

After asking the agent MANY questions and getting all the numbers from the detailed lease, contract and Body Corporate notes, this appealing Melbourne office was advertised at a 10.6% gross return for \$170,000. Yet when all the numbers were crunched, the actual net return was an abysmal 2.2%.

Property Summary Table NO GO - CRAP LEASE	
Property Location	605/221 Queen Street, Melbourne, Vic 3000
Property Type	Strata Offices
Tenant	Solicitor
Land size	
Property Size	60 m ²
Property Includes	Fixed floor coverings, window furnishings, electric light fittings, office partitions
Zoning	Commercial Strata office
Lease Term	6 years NO SECURITY DEPOSIT
Rent Gross / Net	Started at \$15,000 + GST

Lease Details	<p>Started 01-02-2012 Expiry 01-02-18</p> <p>Annual CPI increases-</p> <p>On lease option take up- the rent will be increased by 5% on 01-02-18 and 01-02-2024 and 01-02-2030</p>
Options Available	<p>3 by 6 year options</p> <p>31-10-2018, 31-10-2024, 31-10-2030</p>
Outgoings	<p>All paid by Landlord</p> <p>Rates \$968.76</p> <p>Fire Services Levy \$374.66</p> <p>Waterways drainage \$117.40</p> <p>Parks & Services \$74.37</p> <p>Water services \$332.08</p> <p>Sewerage \$446.84</p> <p>Body Corporate admin fund quarterly \$1,917.75 = \$7,671</p> <p>Lift Levy quarterly to end 2017- \$1083.65 = \$4334.6</p> <p>Future works- Leaking roof, fire hydrant problems- \$56K for whole building.</p> <p>Privately owned fixtures and fittings need separate insurance- landlord insurance or tenant pays their own contents insurance</p> <p>?? Sinking fund \$3484.15???</p> <p>Total (without sinking fund?) = \$14, 319.71</p> <p>Total without lift levy = \$9985</p>
Insurance	<p>List what is in the contract of sale and lease.</p> <p>Strata has own insurance in admin fees</p> <p>Lessee needs to pay for own liability insurance</p> <p>Freehold- lessee will usually have insurance for premises and you need to be listed on it as an interested party.</p>
Method of Sale	By Negotiation
Agent	<p>Madison Liddell - Associate Director</p> <p>M +61 422 260 477</p> <p>P +61 3 9909 7833 F +61 3 9909 7830</p> <p>E madison@visioninproperty.com.au</p> <p>www.visioninproperty.com.au</p> <p>A Suite 518, 1 Queens Road, Melbourne VIC 3004</p>

Net Rent	Gross Rent \$18,163 - \$14,320 outgoings Net rent \$3,843
Sale Price	\$125,000 site value Asking \$170,000
% Return Net	2.2%