

## Due diligence and deal analysis

Undertaking due diligence is a vital part of purchasing a commercial property.

We undertake a detailed due diligence, financial analysis and evaluation process for all your projects to reduce that risk for you as much as possible.

It must be stated clearly that we are not the regulators. Our recommendations are not deemed to be the final advice. You are still required to take advice from your professional team. However, we do a lot of work on your behalf to gather information related to the project to help you get started.

Our process includes valuations, financial evaluations, area surveys and market opportunity analysis.

This comprehensive service is backed by multiple investment strategy options including best exit strategies, margins and high-yield rentals.

Even though your professional team will undertake the actual due diligence, it's important you understand the issues that will be addressed.

### The Deal Pack

When we have qualified and analysed all the data, it is included as part of our Deal Pack, so you can:

- a) take an educated assessment of whether the property is right for you and
- b) have a head start when you take it to your professional team to get the required advice for that particular project.

Click [here](#) to download our commercial property Due Diligence Checklist.

## Your Due Diligence Checklist

This list can be used to check due diligence, when reviewing:

- the due diligence provided by Solluca Property Investments or
- the due diligence undertaken by your professional team

The process includes many different aspects and the actions covered in this list are just some of those that might be considered. The points included in the checklist are not in any specific order.

### 1. Assess market demand *Responsibility - Surveyor & Buyer.*

- Check to discover whether the commercial property will appeal to the market
- Estimate the building's likely 10-year vacancy ratio

### 2. Valuation *Responsibility – Valuer, Solicitor & Planner*

- Investigate the value of similar commercial properties in the area
- Review rentals applying to similar properties
- Discover the type of tenants that are attracted to the surrounding area
- Determine how smooth will the rental process be
- Check planning and redevelopment proposals and assess their impact
- Determine whether the property be easily adapted easily if circumstances change

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### **3. Check the property's condition** *Responsibility - Surveyor*

- Report on the property's condition
- List any major defects
- Check to see if there are any tenants - and are they on a full repairing and insuring lease. Also, confirm whether or not they have complied with the lease's covenants
- Check that the appropriate certification is available for any work carried out

### **4. Surveys** *Responsibility - Surveyor*

Arrange for appropriate surveys, including:

- Building survey
- Site survey
- Mechanical survey
- Electrical survey
- Measurement survey
- Environmental and ground survey

### **5. Use and Planning** *Responsibility – Solicitor & Planner*

- Ascertain what the property can be used for - and any planning permission needed
- Enquire whether you or your proposed tenant are planning any change of use
- Check whether using the property as stated will trigger any environmental impediments
- List any planning applications submitted relevant and, check whether all conditions been met
- Check to see if there are any planning projects being considered that could affect the use of the property.

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- Find out whether the property is listed and, if that's the case, enquire about any use restrictions
- Check that all consents have been obtained and complied with.
- Check to see if there have been any enforcement notices and have they been complied with. And similarly, check for enforcement actions and whether they have been completed.

#### **6. Insurance Policies Responsibility – Solicitor**

- Check whether the property is adequately insured. List the policies and the person responsible.
- Check for any insurance claims applicable to the property
- Check that all premiums have been paid

#### **7. Maintenance Costs Responsibility – Surveyor**

- Check repair and maintenance activity and costs
- If there are exiting tenants, check whether the current owner has arranged for them to have access to additional amenities
- Determine the parking arrangements and the associated maintenance costs
- Check whether maintenance costs are charged to the tenants

#### **8. Property Title Responsibility – Solicitor**

To investigate legal issues and test the assumptions made about the property, a Report on Title must be produced.

The Report should contain the following (as a minimum):

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- Ownership and title
- Boundaries
- Existing charges, such as encumbrances and mortgages
- Search results, such as local authority, water and drainage, and environmental
- Obligations, liabilities, rights and covenants, relating to the property
- Insurances, both existing and required
- Any existing leases
- Any legislation which applies to the property
- Recommendations and implications for mitigation or remedy relating to defects and omissions
- Consents required for purchase or charging
- Replies to any enquiries or issues
- Current planning conditions and consents
- Any breaches of restrictions or defective title insurance

## 9. Leases

### ***Responsibility*** – ***Solicitor***

The property's value and management can be affected by leases.

It's important to report the principle terms of any associated leases - particularly those that could have a direct financial impact on the property's value.

Typically these would include:

- Any termination dates

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- Any break clauses**
- Rent reviews**
- Charging or transfer restrictions**
- Any obligations involving insurance and repairs**
- Security of tenure/contracted out**
- Any restrictions on recovering service charges**

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## **10. Covenant Strength** *Responsibility – Solicitor*

If tenants are involved, the following enquiries must be made:

- Credit quality and financial status
- The number of lease break clauses and the length of the lease
- The history of their rental and service charge payments
- A review of payment record, filed accounts and financial assessments
- Guarantor arrangements
- The financial status of any sureties and guarantors, along with their credit quality
- Current insurances

## **11. Rental Value** *Responsibility – Valuer & Surveyor*

- Determine the rental value and the potential for rental growth
- Check rental income growth over the previous decade and predict its growth for a similar period in the future
- Calculate earnings after tax and insurance

## **12. Tax** *Responsibility – Accountant*

- Assess the tax liabilities associated with owning the property
- Determine if VAT is payable
- Check whether the sale is a transfer of a going concern
- Assess the balance sheet
- Assess of income and risks
- Check the how the ownership will be structured - as a company, a trust or an individual

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- Check what capital allowances would apply
- Identify the most tax-efficient ownership structure

### **13. Legislation and Regulations** *Responsibility – Solicitor & Team*

**It's important to comply with all relevant legislation and regulations, including:**

- Landlord and Tenant Acts
- Law of Property Act 1925
- Climate Change Act
- Energy Act
- Health and Safety legislation
- Building Regulations
- Fire and Asbestos Regulations

### **14. Exposure to Risk** *Responsibility – Financial Advisor, Solicitor & Buyer*

- Assess the risk you are prepared to take and the risk a lender would take
- Check that the property aligns well with your investment strategy
- Discuss and develop an emergency plan should there be an extended void period

### **15. Documentation** *Responsibility – Entire Team*

**Check all relevant documents including:**

- Loan documents
- Trust deeds
- Bank statements

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- Business licenses**
- Payroll**
- Planning and environmental reports**

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