Maximize Your Pre Due Diligence Success

THREE QUESTIONS TO ASK WHEN ASSESSING A POTENTIAL COMMERCIAL REAL ESTATE ACQUISITION

Arnon Wiener, Esq.

The life of a commercial real estate investor can be very hectic. There are places to go, people to meet and deals to be made. A CRE investor could spend many hours a week investigating potential properties for acquisition. Before considering a deal, the investor will investigate the mechanics of the transaction. He will ferret out the information needed to make an intelligent decision about the property. Some of those investigations will lead to offers and some will lead to dead ends.

Is there a method for CRE investors to better utilize the time spent on the preliminary assessment? How can a CRE investor prioritize the process to focus resources on the most worthwhile properties?

Deal assessment includes many steps and areas of responsibility. During the beginning stages of investigation, a potential buyer is probably not interested in reviewing every single detail. He would not want to incur the expense of a comprehensive due diligence analysis and review simply to weed out the properties that do not appear to be successful.

An excellent solution is to conduct Pre Due Diligence. With a pre due diligence review, the buyer can cover key areas of consideration while incurring a limited expense. Pre due diligence is an essential step that saves time and resources by revealing which properties are worth pursuing and which are not.

PRE DUE DILIGENCE PROCESS

Answering these three questions will help investors to better assess a potential deal:

1 ARE THE MARKET ASSUMPTIONS PRESENTED BY THE SELLER ACCURATE?

It is in the seller's best interest to present the property in the best possible light. The seller will make the most aggressive assumptions, in order to show the strength of the property. The potential investor needs to conduct a reality check on the seller's numbers and update the seller's Argus model accordingly. If the seller is projecting a per square foot rent increase for new tenants, is that a correct assessment, or is the seller being overly optimistic in light of the current rents being charged in the property?

2 ARE THE EXPENSES PRESENTED BY THE SELLER IN LINE WITH HISTORICAL TRENDS FOR THE PROPERTY?

The seller may project year one expense figures as low as possible, thereby increasing the NOI. The savvy investor should conduct a basic analysis to ascertain whether the projected year one expenses are in line with historical trends for that property.

3 WHICH TENANT ITEMS IN THE LEASE HAVE THE GREATEST IMPACT ON THE PROPERTY?

Leases are complex legal documents containing various clauses and addendums. While a complete lease abstract may not be necessary at the preliminary deal assessment stage, it is certainly worthwhile to obtain a mini abstract. For a fraction of the cost of a full abstract, a mini abstract provides a one page summation of the most essential data points, putting crucial information at the investor's fingertips.

Effective pre due diligence can protect investors from wasting time and resources. Pre due diligence allows investors to potentially focus on a larger pool of prospects and make better decisions in a shorter amount of time.

732.333.3665 | 1125 OCEAN AVENUE | LAKEWOOD, NJ 08701 | WWW.LPRD.COM