

TECHNICAL DUE DILIGENCE CASE STUDY

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Property: Office / Warehouse premises

Location: Sydney Western Suburbs, NSW

Property Constructed: 1996 (Office – 3,000m²) and 1998 (Warehouse – 9,000m²)

Instruction date: July 2003



Report Objectives

SGA Property Consultancy – Chartered Building Consultants, was instructed by a potential purchaser to prepare a Technical Due Diligence Report to identify and prioritise risk associated with the property purchase. SGA undertook a review and assessment of issues pertaining to Structural integrity, Building fabric longevity, the Building Services & BCA compliance. SGA were also employed to establish a 10 yr CAPEX and a Repair & Maintenance (R&M) budget forecast to facilitate an on-going property management function.

Inspection Stage

At the inspection stage SGA identified a lack of sprinkler protection to the Warehouse. Following the desktop review and analysis SGA identified inconsistencies with Council certification issued (effectively Council had signed off on the building as being acceptable although SGA identified this was contrary to BCA Compliance). SGA estimated the cost for the sprinkler installation at \$1.1M.

Reporting Stage

SGA established the Building Compliance issue very early on in the Due Diligence period and reported the facts to the potential purchaser immediately – this sprinkler issue was seen as a “deal breaker”.

As the Due Diligence continued the Vendor appointed an independent fire safety consultant who confirmed aspects of the SGA report with respect to BCA non-compliance.

Result

The Vendor, previously unaware that the building was substantially non-compliant elected to address the identified non-compliance and installed a sprinkler system to the warehouse as part of the sale process. The purchaser consequently obtained a compliant building without a significant cost or penalty.

As the Tenant is bound under a Double Nett lease, the new Building Owner can also use the SGA cost schedules for future six monthly meetings with the Tenant to ensure SGA recommended CAPEX (plant and equipment) and OPEX are being suitably implemented and the asset value maintained.



Why undertake Technical Due Diligence Reporting?

The extent of the investigations required should be determined depending on the building age, condition, form, location, history – in addition to the purchaser's intentions (refurbishment, redevelopment, strata conversion). Before any significant property purchase, consideration of one or more of the following specialist elements must be made;

- Building Structure & Fabric
- Building Services (Mechanical, Electrical, Fire Services, Hydraulic)
- Vertical Transportation
- BCA & DDA Compliance
- Hazardous Material / Environmental Assessment
- Site Identification Survey
- Building Area Surveys
- Town Planning Reports
- Capital Allowance for Depreciation & Taxation Purposes
- Fire Insurance Replacement Cost Assessments
- CAPEX / Repair & Maintenance Cost Schedules
- OH&S Legislation Compliance

Each specialist area needs qualified consideration to understand any dormant or future liability. SGA ensures that each area considered is undertaken by Qualified Chartered Professionals & Engineers.

SGA Reporting Style

On completion of all site investigations, the SGA Technical Due Diligence team is assembled to discuss key issues. The preparation of the Technical Due Diligence report follows a unique format devised by SGA. The report is issued to the client in DRAFT format for review and comment prior to preparation of the final report.

Rather than preparing very detailed analytical reports, SGA understand the Client requirement for accurate commercial reporting that can be clearly understood. SGA reports endeavour to avoid repetitive technical jargon in order to communicate precisely the issues. This reporting style (backed up by the technical & detailed material), quality communication and a commitment to timeframe confirms SGA as the leader in Technical Due Diligence.

SGA Clients

SGA respect the confidentiality & business activities of their Clients – examples of anonymous, non-site specific reports are available for presentation on request.

For Thought...

One of the poorest performing buildings that SGA has inspected was a brand new, significant commercial complex & the best, a Contractor's Headquarters!



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