



## **Case Study: Conducting a commercial due diligence**

### **Initial situation, task, goal setting:**

In connection with the acquisition of an office property in Heidelberg, a mandate was given by the investor to carry out a commercial due diligence. The service agreement required producing a market, location and costs analysis.

**Responsibilities:** Project Manager

### **Procedure:**

First, the property was visited and subsequently the infrastructure around the building was recorded. Despite its completion back in 1993, the building scores with its typical structural features that are sought after by prospective tenants:

- Attractive architecture
- High flexibility through H-shaped floor plan and axis grid of 1.25 m
- Clear ceiling height: 2.75 m
- Cable channels
- External sun protection
- Low service charges

In conjunction with the excellent parking situation of the building (180 spaces or 1 parking space per 67.87 square meters of office space), there is a good rental potential for available space. In the immediate vicinity there are several restaurants and facilities for daily needs. A bus stop is right outside the building. The connection to individual traffic is good. In the next step, information about the location and the office market was collected through internet-based research and discussions with the local economic development department, the review committee as well as locally active market participants. On the basis of the results it was able to make an assessment for a positive development of the submarket and a rental market assessment. The rental price was seen at € 9.50 to € 10, - / square meter. To determine a fair market buying factor – which was assumed to be at the 12.5 times to 13 times of its annual net rent, assuming full occupancy - the advisory committee's information in further discussions with local market participants and from those experts received information on comparable transactions were plausibilised. For the service charge analysis, first the rental agreements - as indicated by the seller – were checked that all are agreed on the same terms. After a positive result, utility costs of the past two years were compared. For ease of comparison costs were shown in € / square meter. This amounted to € 2.52/ square meter in t1 and € 2,06 / square meter in t2. In direct comparison with the benchmarks of Jones Lang LaSalle (JLL) "OSCAR" and the "Benchmark" by Atisreal, values determined for the building were below each comparable value. However, due to higher heating and electricity costs, it was pointed out to the client to assume rising costs for the year of t3. In comparison with these benchmarks, cost drivers could be identified. Also, by means of existing utility statements, one could see that the building was regularly maintained and no maintenance was needed. Regarding the non-recoverable service charges in the period of t1 and t2, it was pointed out that due to a vacancy rate of over 15% with € 0.56 per square meter and € 1.06 per square meter, respectively, those were relatively high. I forwarded those findings in a written final report to the client.

### **Current project status:**

On completion of the commercial due diligence and other elements of the purchase advice the client had purchased the building.