



Case Study: Buying advice for an office building

Initial situation, task, goal setting:

An international investor had been offered to purchase a property in Frankfurt and hired a consultant. The investor was to be put in the position to be able to make an offer where he could emerge successful from the proceedings, verified by current / historical comparative data. For this purpose, an office market analysis, a commercial due diligence and a business plan were requested by the investor.

Responsibilities: Project Manager

Procedure:

To get an impression, first of all the property was visited. It is a highrise building complex, completed in 1993 with office space suiting current standards:

- Floor plan allows for different concepts such as open plan solution, cell and group offices
- Sectioning of individual levels into two rental units (mobile partition system)
- Ventilation with cooling, individually adjustable for each axis, double bottom
- Integrated electric sunshade
- Axis grid: 1.40 m / clear ceiling height, about: 2.75 m
- Workstation appropriate lighting
- Equipment: high-quality

For the office market analysis, in a first step market information was collected from available research data (e.g. space turnover, vacancy rates, average rents, peak and maximum rents). To describe the competitive position of the building the structural characteristics (e.g. total lettable area, rentable area, parking lots, rents, availability, axis grid, service charges, elevators, etc.) of the mandated property were compared against other properties on the market using a feature comparison matrix. In comparison to market rents, it was able to determine the current level of rent and the rental value of the property. For this the average rent, the highest and lowest rent / square meter seen in the complex were applied and found that they were at market rates. To assist in determining the purchase price, transactions of comparable size were identified and set them in relation to the mandated property. In the commercial due diligence, a detailed analysis of all leases and an analysis of the recoverable and non-recoverable service charges, including a study of the repair and maintenance expenses was conducted. For this purpose, all value-relevant key data (e.g. tenant name, area, rent / square meter, and end of the rental period, index control, etc.) of all leases were documented in a rent roll. For the service charge analysis, the positions of the utility costs (e.g. general electricity, heating costs, administration, insurance fees, maintenance expenses, tax), were listed and shown in € / square meter. Compared with figures from the "OSCAR - Office Service Charge Analysis Report" as well as utility costs paid in comparable properties it came out that the building had values at the lower end of the range. Due to comprehensive maintenance contracts, it was noted that the owners remaining non-recoverable costs were low. Third part of the purchase advice was to develop a business plan: For non-rented space (approximately 15% of the complex) a leasing strategy was created and the opportunities of tenant incentives were highlighted. Based on the service charge analysis an analysis of potential in terms of cost reduction and profit maximization was conducted and subsequently a recommendation for different sales scenarios was developed. Finally, gained knowledge during the acquisition consultancy process was put together in a discounted cash flow model, which was then used by the client as a basis for agreeing a price and meetings with financing banks.

Current project status:

The property is sold, the seller chose another investor.