

## PROPERTY PURCHASE CHECKLIST

This list is not meant to be all. It is meant to be a starting point from which one can take the necessary points. Over analysis could also lead to not concluding a transaction.

### **Essential checks to be completed prior to the purchase of any Commercial, Retail or Industrial property.**

#### **1. COMMERCIAL PROPERTY FINANCE**

As most commercial property investments have some form of finance, we will start here as this is an area that sometimes takes much work and time to get in order. The list below is not finite, but does give an indication of the type of information banks require. Please expect a commercial property finance application to be a far harsher process than any residential one.

- 1.1 Full name of Borrowing Entity and Shareholders together with Banking details i.e. Bank, Branch, Account number.
- 1.2 Copy of registration/ company documents/ trust deed/ letter of authority.
- 1.3 Latest signed and audited financials of borrowing entity (must be reasonably up-to-date - banks do not accept financials of years beyond 1 year back)
- 1.4 Latest signed and audited financials of trading entity as well as management accounts not older than 2 months.
- 1.5 If an existing entity is purchasing confirmation of address (rates bill, etc).
- 1.6 Signed and dated personal statements of Assets and Liabilities of shareholders/ sureties not older than 3 months.
- 1.7 Bank details of all sureties
- 1.8 Confirmation of address of sureties (rates, telephone bill, etc)
- 1.9 Copy of ID of sureties
- 1.10 Details of proposed/ existing tenants, showing lease term, rental payable, escalations, size of space leased and confirmation of monthly expenses.
- 1.11 Erf diagram with size of erf/ sectional title description.
- 1.12 Finance type and amount required.
- 1.13 CV and background of you and your business.
- 1.14 Family tree with all other legal entities (incl. reg numbers)
- 1.15 Copy of signed deed of sale.
- 1.16 Value, source and timing of your own contribution.
- 1.17 If building loan, drawings, specification, professional team and costing.

## 2. THE SITE

- 2.1 Locality Plan showing surrounding area and names of adjacent streets
- 2.2 Site Area from a surveyors diagram or General plan or preferable, Diagram Deed with dimensions of site
- 2.3 Servitudes. Obtain (if possible) location, area, copies of diagrams, duration, beneficiaries. Eg. Rights of Way, Eskom, Post Office, Municipal, Road widening, parking, water rights, mineral rights severed from ownership?, surface rights (mining), un-registered servitudes such as squatters and rights of way.

## 3. LAND AND BUILDING INSPECTION

A visit to the site to check that land and buildings conform to what is indicated by the building plans, site diagram, servitude diagrams etc.

### 3.1 Description of:

- a) The site (slope, land use, condition)
- b) The surrounding area (adjacent buildings, view, improving areas?)
- c) Room for expansion?
- d) Possible contamination? If you suspect any user or previous users of the property were dealing with any hazardous chemicals or materials such as asbestos then get a report from an environmental expert.

### 3.2 Building:

- a) Inspection of buildings – one must see all aspects of the property and buildings – all dark corners, stair wells, lift rooms, air-conditioning plants, vacant and unused areas, etc.
- b) Depending on the size and nature of the property, one may wish to use the services of various professionals to inspect aspects of the property and verify that they are in working order. (eg. air-conditioning or lifts). Such professionals may also give one a better understanding of estimates of future maintenance.
- c) Roofing, structure, any cracks?.
- d) Power supply.
- e) Fixtures, fittings, plant and equipment not to be the subject of a lease agreement, credit sale or hire purchase
- f) Notarial hypothecation of movables?
- g) Materials and finishes used – durability
  - maintenance implications
  - international standards

### 3.3 If demolition or alteration contemplated:

- a) Cost estimates plus fees
- b) Estimates of timing
- c) Re-housing of tenants/removal of leases
- d) Proposed new tenants

Bear in mind that different locations have different nuances, for example, in Gauteng, there may be sinkholes one must look out for : in Kwa-Zulu Natal, there may be areas susceptible to slide, etc.

#### **4. SELLER INFORMATION**

- 4.1 Who is the Seller – registered name.
- 4.2 If an individual, how married and in which country did they get married (yes, this does have an effect on your transaction!!). If in doubt, get both parties to sign sale agreement.
- 4.3 Are they VAT vendors? – this is vitally important to the structure of the sale.
- 4.4 Is the Seller resident in SA for tax purposes?.
- 4.5 Ask the Seller or Agent if there are any material defects of the Property?.
- 4.6 Dealing through a reputable agent, like Guy de la Porte Investment Properties, will ensure you get the correct information relating to the Seller.

#### **5. TITLE DEED**

Obtain copies of latest Deeds (check with Surveyor-General that they are the latest). Check:

- a) Owner and date of purchase
- b) Description: location and area
- c) Conditions of title – especially restrictions and servitudes; any new restrictions or bonds?
- d) 100% certain of the identity of the property
- e) Written report from attorneys (after performing a Deeds' Registry search), confirming that there are no restrictions to the development of the site.
- f) Attorneys to supply list of deed and prior deeds to be obtained when taking transfer.

#### **6. SELLER'S MORTGAGE BOND**

As all existing mortgage bonds normally have to be cancelled prior to registration of transfer into the purchaser's name, there is generally no need to check on the Seller's bond status.

#### **7. MUNICIPAL VALUATION: LAND AND IMPROVEMENTS**

- 7.1 Municipal Valuation Certificate showing:
  - a) Value of land and improvements
  - b) Owner (check the name on Title Deed)
  - c) Address of owner

## 7.2 Rates:

- a) Present rates
- b) Possible increases (reassessment of property or increase in rates levels cents in the Rand) and when likely

## 8. AVAILABILITY OF PUBLIC UTILITIES

- a) Water: sufficient pressure for sprinklers
- b) Electricity, sewerage, storm water
- c) Gas
- d) How are the above charged?
- e) Is the Seller/ tenants up-to-date with utility payments?

Electrical compliance certificates?

General compliance with the Occupational Health and Safety Act?. If a large property,

It is advisable to use the services of a specialist to check on compliance in this regard.

## 9. TOWN PLANNING

Obtain official zoning sheet of the site and ensure that it covers the following, or alternatively obtain this information

- a) Use Zoning and definition of uses
- b) Consent uses and definition
- c) Building lines
- d) Coverage and Definition
- e) Height and definition
- f) Parking Requirements
- g) Any Annexures, Schedules or notes relating to the site

If site has been re-zoned, obtain

- a) Photocopy of new zoning
- b) Conditions of Amended Scheme
- c) Has development contribution been paid?

Zoning of surrounding areas

Any unusual conditions applying to the site?. Discuss with municipal town planners or equivalent.

Any probable changes to the present situation?

## 10. BUILDING PLANS

The approved building plans at the local authority must be checked to see that the existing buildings on the site (and alterations) have been approved. If not, the sellers must undertake to have the alterations approved at their cost. Also compare the available rights in terms of the zoning with the existing building to see whether extra rights exist. Make sure the rentable areas are correct and conform to the leases, if in doubt measure the building.

- a) Age of building
- b) History of renovations; approved by municipality?
- c) Extra rights – height, coverage, land uses
- d) Adequate lifts
- e) Protection against wind, rain
- f) Ease of access
- g) Efficiency of building design

Occupation/ completion certificates?

Does it look like any boundaries have been encroached?. Conservative purchasers may wish a land surveyor to conduct a basic survey.

## 11. ACCESSIBILITY

Where accessibility is an issue, eg. As in shopping centres and industrial properties, check existing roads and proposed changes (with dates of anticipated implementation). For all properties, ease of accessibility and possible restrictions on accessibility (eg. Municipal, Department of Transport, and Provincial controls) and proposed changes (with dates) to be checked.

### 11.1 Existing accessibility

- a) private vehicles
- b) public transport
- c) pedestrian
- d) rail siding or siding rights
- e) other

### 11.2 Proposed accessibility, new;

- a) roads
- b) rail, bus
- c) pedestrian routes
- d) air

### 11.3 Container handling facilities, or within Free Delivery area of a station (for industry)

11.4 availability of on-site parking

- a) no. of bays
- b) ratio of size of development (no of bays / 100 sqm)

11.5 Accessibility to Social services, Environmental Quality

This is especially relevant for residential buildings;

Proximity and access to shops, schools, parks, libraries, sports facilities, noise, pollution (temperature inversions, localized pollution), etc

Any proposed Road widenings?

## 12. SOIL AND SUBSURFACE CONDITIONS

Check for the existence of e.g. collapsing soils, heaving clays. Ecca Shales, dolomite, undermining, watercourses (50 year floodline). If necessary have soil tests done and floodline drawn and a report on the implications of subsoil conditions for foundations and development.

## 13. TENANT MIX AND DESCRIPTION

- 13.1 Speak to the tenants to get an idea of the attitude towards the building and likelihood of them renewing their leases.
- 13.2 Ensure tenants not all dependent on buoyant economy, not all in the same economic sector.
- 13.3 Turnover of tenants over the past 3 years
- 13.4 Change in type and standard of tenant over past 3 years.
- 13.5 Description of tenant's business
- 13.6 Financial strength/credit rating of existing tenants.

## 14. CURRENT LEASES (obtain copies of leases and check – especially for ambiguities.)

- 14.1 What premises are rented? Is it clearly stated?
- 14.2 Check that the actual measured areas in the building said to be rented correspond with the areas stated in the lease.
- 14.3 Comparison of rentals with market: high/low
- 14.4 Graph of lease expiry date to show when building will require letting.
- 14.5 Check that leases properly executed by all parties:
  - a) Stamped correctly – refer latest Stamp Duty rules
  - b) Signed and all pages initialed
  - c) All annexures referred to accounted for and initialed
  - d) If any guarantees – physical inspection essential, properly executed, signed, stamped
  - e) If any suretyships, properly executed, signed, stamped

- f) All resolutions correctly signed and attached to leases?
- g) Aliens: do they have necessary authority to enter into the lease
- h) Foreign companies: Reserve Bank permission?

Check:

- a) Are the leases current
- b) Are rentals paid actual rentals as calculated in terms of the lease as shown to purchaser
- c) Are rental figures clearly stated and correctly calculated
- d) Escalations
  - Allowed
  - amounts clearly stated
- e) Commencement date clearly stated
- f) Duration clearly stated
- g) Any renewal options: length of option
- h) Any sub-leases
  - Cession
  - lease assigned
- i) Arrears due?
  - what
  - amount
  - age analysis?
  - ask if any bad payers
  - credit check on any substantial tenants
- j) Other payments due?
  - tenants extras
  - loans
  - electricity
  - other
- k) Any variations?
  - are they recorded
  - executed
  - stamped
  - verbal variation

Insurance

- a) Landlord obligations
- b) Rights of tenants
- c) Insurer
- d) Cost of insurance

Any unusual or onerous clauses:

- a) Devaluation
- b) "Gold" clauses
- c) Exclusivity
- d) Third party rights or obligations (e.g. consent of 3rd party required for cession of lease)
- e) Options or pre-emptive rights
- f) Other

Check authority to enter into the leases:

- a) If a company leasing:
  - Check Articles of company
  - Inspect resolutions to enter into lease
  - Has signatory been authorized (resolution) to sign
- b) If a partnership or firm:
  - have all partners given authority to enter into the lease
  - have all partners signed resolution empowering signatory to sign lease
- c) If an individual – check whether married woman (in community of property), minor or prodigal. Must then be assisted by a relevant person.

## 15. RENTAL HISTORY

Gross and net rentals over the past 3 years to evaluate:

- a) Trends in expenses
- b) What escalations there were and when applied
- c) Trends in net rentals
- d) Likelihood of tenants asking for rent reductions

## 16. EXPENSE ANALYSIS

One needs to ascertain what the realistic expenses are for the first year of ownership as well as understand what they will be for the foreseeable future. Also, who pays for each expense and are they recoverable from the tenants in terms of their leases.

Expenses for a property will vary from property to property. A list of expenses will include:

- Rates
- Refuse and waste removal
- Sewerage
- Water
- Insurance
- Repairs & Maintenance
- Management



Electricity  
Meter Reading  
Local Council levies  
Improvement District levies  
Air-conditioning maintenance  
Cleaning – inside and out  
Lifts and Escalators  
Gardens and Landscaping – inside and out  
Hygienic services  
Mechanical equipment  
Pest control  
Facility management  
Electrical service contracts  
Consumables  
Salaries and wages  
Security  
Accounting and Auditing  
Marketing, merchants association/ promotion funds  
Tenant Installation costs  
Letting Commissions

Any contracts with service providers for any of the above expenses?. If so, how much and for what period?.

Any recoveries of these expenses in terms of occupiers' leases must be recognized as income – preferably to be included in gross rentals collected from tenants.

## **17. NETT RENTAL PROJECTIONS**

Obtain projections from vendor of gross and net rental projections for coming year to compare with the PURCHASER estimates of nett rental and to see projected change in expenses.

## **18. IF LEASEBACK OR COMPANY PURCHASE**

It is generally advised against purchasing the entity that holds a property.

Obtain sufficient information to form an educated opinion of the financial health and prospects.

### **18.1 Financial evaluation (audited statements)**

- Gross and net income trends and prospects
- What management/ directors feel of the next 2 years trading?
- Capital structure and trends
- Tax liability: past and future
- Financial health: historical and future

## 18.2 Memorandum and Articles of Association

Check that all the books required by the Companies Act are in order,  
signed, up-to-date, audited etc.

## 19. FOR SECTIONAL TITLE PURCHASES

Details of section scheme

- 19.1 Check on the solvency of the scheme by studying the financials of the Body Corporate
- 19.2 Check with the managing agents whether there are any special levies pending such as for repairs to lifts, painting or waterproofing the building and roof repairs etc.
- 19.3 Check whether there is a real right to extend the scheme in existence and whether the exercise of that right would adversely impact on the flat/apartment you intend to purchase
- 19.4 Check on the rules governing the scheme and familiarize yourself with them. For example it should be noted whether pets or noisy/ dirty industries are allowed.
- 19.5 Check on the monthly levies payable for the unit you wish to purchase and for any exclusive use areas such as parking bays or gardens etc.
- 19.6 Purchase parking bays and in particular lock up / covered parking or garages. If possible, as the provision of sufficient secure and safe parking for the occupants of the property being purchased to let is very important
- 19.7 Check on the physical condition of not only the premises you wish to purchase but also of the common property such as the roofs, lifts and exterior of the buildings etc. If necessary get expert opinion. Request that the seller provide a warranty that he/she is not aware of any latent (hidden) defects in the property which have not been disclosed
- 19.8 Remember that while the Body Corporate is responsible for the repair of the common property such as the roof and the exterior of the buildings etc and that you personally will not be called upon to carry out any such repairs, you will have less control over expenditure on repairs and maintenance, than you would have with conventional property

## 20. STRUCTURE OF TRANSACTION

At this point one should, if not already done so, start thinking about the structure of the transaction.

Depending on the size and nature of the deal, it is advisable to consult one's accountant and attorney to make sure all aspects one has considered are taken into account.

The above information is extensive and may take some effort in accumulating. In order to achieve the best result for your property, we encourage you to be as comprehensive as possible.

### **DISCLAIMER**

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