

# ANZRPNG 8 PREPARING PROPERTY FOR SALE

## 1.0 Introduction

### 1.1 Purpose

The purpose of this Guidance Note is to provide a general reference to preparing real estate for sale. The Guidance Note addresses the steps taken in preparing property for sale prior to the actual commencement of marketing proper. It covers the period of preparation of the physical state of the property for sale together with any required financial or technical information bought together in a selling document prior to the placement of the property on the open market.

### 1.2 Status of Guidance Notes

Guidance Notes are intended to embody recognised 'good practice' and therefore may (although this should not be assumed) provide some professional support if properly applied. While they are not mandatory, it is likely that they will serve as a comparative measure of the level of performance of a Member. They are an integral part of the Valuation and Property Standards Manual.

### 1.3 Scope

This Guidance note is applicable to Members involved with most forms of real estate. However, the practitioner should be aware of particular idiosyncrasies which may apply to specialised property e.g. rural holdings, hospitals, nursing homes and other properties of a specialist nature which these notes do not attempt to address.

### 1.4 Schedule

Provided to the rear of the Guidance Note is a schedule of various types of property and an indication of the more specific information which must be assembled when preparing a particular property use for sale.

### 1.5 Preparation of Property

The preparation of the property as covered by this Guidance Note relates to aspects of both physical appearance and accumulation of information

required to provide the market with an immediate description of the asset it is considering to purchase. The information assimilated for the marketing material should be accurate given the responsibility imposed by Section 52 of the Trade Practices Act and preferably, all information should be verified by the Vendor's written certification of its accuracy. Matters relating to title should be requisitioned from the vendor's solicitor so that appropriate documents can be considered and be available for perusal. These could include title search, zoning certificate and current survey report.

## 2.0 Physical Preparation of the Property

### 2.1 Importance of Physical Presentation

The physical condition or state of presentation of the property is generally speaking, very important in achieving the highest possible price. A positive first impression is essential to maximising value, as the buyer is aware that a well-maintained property will not require maintenance expense in the early period of ownership. Pre disposal planning should be agreed with the Vendor and individually tailored to each property's need.

### 2.2 Areas Requiring Physical Attention

The practitioner should identify areas requiring physical attention, list items of physical deterioration, poor state of repair or areas of untidy appearance and discuss these with the vendor with the objective of rectification.

Issues may include:

- Upgrading the external appearance, which may include cleaning, minor repairs, repainting or landscaping maintenance.
- Attention to obvious maintenance requirements such as water damage, cracking to walls, repairs to roofing or down pipes, estate road resurfacing and numerous other possibilities should be noted for discussion.

### 2.3 Redevelopment Potential

Exceptions however do exist where a property has redevelopment potential and the “run down” condition of the improvements would have little effect on the value of the property with the possible exception to a reduction in price due to cost of demolition or removal. In this instance the buyers focus would be more on the characteristics of the location and land itself rather than the condition of the improvements thereon.

## 3.0 Preparation of the Property's Financial Details

### 3.1 Soundness of Income

The most critical issue in preparing property for sale where it is an investment is the soundness of the income produced by the property. The length of leases, tenant profile and terms and conditions of the leases, including building outgoings, are all issues of paramount importance to the investor.

### 3.2 Tenancy and Lease Status

In preparing a property for sale the practitioner should review a property's tenancy and lease status and undertake the following checklist to ensure that the property is presented in its best financial position. Be aware of a potential owner occupier who may be looking for space to occupy in a partially vacant building.

### 3.3 Occupancy Levels

- Fully leased property is the most attractive to the broader investment market. If vacancies exist, and the vendor can allow the time, it would be prudent, in order to maximise the selling price, to delay the sale to lease the property.
- If vacancies exist, the owner should be advised of the chances of re-leasing the premises, expected market rental level, and time frame for re-leasing the property.

### 3.4 Tenancy Security

- Ensure that all leases have been signed, stamped and/or registered, and that a comprehensive set of leases is available for scrutiny by potential buyers.
- Ensure that all personal or bank guarantees have been obtained and copies of each are attached to the leases.

- Provide a resume of the tenant(s) business history, number of outlets and other available information as this will assist in the purchasers acceptance of the security.

### 3.5 Lease Tenures

- If lease terms are about to expire, endeavours should be made to secure either new leases or lease renewals over existing tenancies.
- At the very least enter into correspondence with existing or potential tenants to provide a positive outlook as to the future letting of space which may otherwise appear as potential vacancy.

### 3.6 Re-negotiation of Unsatisfactory Lease Terms

- If there are undesirable lease terms and conditions that detract from the value or saleability of the property, it is desirable in the pre-sale period to re-negotiate lease terms, which are more commercially acceptable. This could relate to outgoings provisions, rent reviews or rental levels, for example.

### 3.7 Preparation of Tenancy Schedule

Cross-reference the tenancy schedule with the lease documentation (if available) to ensure that the tenancy schedule presents an accurate record of the leasing status of the property. The tenancy schedule should include at least the following vital information:

- Description to identify the area leased, eg. Shop number, floor level, suite number etc.
- Lessee's name, (including trading name).
- Area leased in square metres.
- Gross or net rent per annum (including rate per \$/m2 pa).
- Lease commencement and expiry dates.
- Lease rent review dates and method of rent review ie market rent review or fixed increase or CPI adjustment.
- Tenant's proportion of recoverable outgoings.
- Comments in relation to particular items of variation of a tenant's lease to the standard lease, eg. non recovery of certain outgoings.
- Who owns fit-out and if included in sale.

### 3.8 Other Sources of Income

Details of other sources of income should be summarised. These could include:

- Carparking
- Naming / signage rights
- Licence agreements
- Telecommunication agreements/licences

### 3.9 Outgoing Schedules

- These can be provided either in the form of past actual outgoings or budgeted outgoings and preferably a combination of both.
- The outgoings budget should identify each item of outgoings together with the annualised amount of past actual outgoings and future budgeted outgoings.
- Trends can be established and analysed if several previous years' outgoings are obtained.

### 3.10 Arrears Schedule

- This document will provide the Member with an opportunity to address problem tenants with the vendor to ascertain the impact of arrears on the expected achievable price and/or a program of back rent collection prior to placing the property on the market for sale.
- Every effort should be made to minimise arrears prior to the property being offered to the market otherwise the poor record of tenant payment could have a negative effect on price and marketability.

### 3.11 Depreciation Allowances

Purchasers of commercial, retail and industrial properties often require information on both building and plant and equipment, depreciation allowances in order to assess the property's after tax payment earning potential. This is a specialist area requiring input from accountants or quantity surveyors specialising in this subject.

### 3.12 Overseas Purchasers

This situation will require Foreign Investment Review Board approval in Australia and Overseas Investment Commission in New Zealand.

## 4.0 Marketing Strategy and Budget

### 4.1 Target Market Determines Marketing Strategy

The target market determines the marketing strategy. For smaller properties there is a greater reliance on brochure mail out, enquiries from advertising and signboards. The larger properties require greater emphasis on direct presentation of the property to identified prospective purchasers.

### 4.2 Discussion with Vendor

The marketing strategy requires discussion with the vendor in relation to the recommended marketing campaign / procedure and associated costs.

### 4.3 Marketing Costs

Depending on the marketing strategy adopted, costs may be incurred in relation to a combination of the following:

- Media production
- Advertising costs
- Website
- E-mail
- Internet
- Brochure / video production and cost of circulation
- Cost of producing a comprehensive information memorandum
- Cost to the preparation and erection of signage.
- Mailing and courier costs
- Photographic costs
- Travel expenses
- Cost of other specialists consultants advice (if required)
- Cost of auction venue (if required)
- Auctioneer's fee (if applicable).

### 4.4 Budget

The marketing budget for a sales campaign will depend on the marketing strategy recommended. There is no direct correlation of the size of the marketing budget to the property but generally the larger the property's dollar value the greater the marketing budget.

There should be a schedule of the agreed marketing strategy as to which newspapers or chosen modes of advertising were agreed to including the agreed dates, costs and the length of the advertising campaign.

### 5.0 Method of Sale

#### 5.1 Decided in Consultation With Owner

The method of sale is decided in consultation with the owner and is determined as part of the marketing strategy. A recommendation as to the method of sale is based on the following factors:

- Potential competition
- Dollar value of the property
- Target market
- Competing properties
- Timing of sale
- Requirements of the vendor
- Complexity of the property
- Confidentiality requirements of the vendor
- State of the market

#### 5.2 Methods

The method of sale will generally comprise one of the following main methods:

- Private treaty
- Public auction
- Public tender
- Calls for expressions of interest.

#### 5.3 Variations

There are also other methods which may apply e.g. international tender, minimum sealed bid, informal tender and declared minimum price tender. The Member would adopt the most appropriate method of sale having determined market demand and target market.

#### 5.4 Primary Methods

The four primary methods of sale are described hereunder:

#### 5.5 Private Treaty

This method of sale requires an opinion of price. Pricing a property for sale may be unacceptable to

the vendor in a rising or falling market. However, providing a price estimate allows the market to judge the vendor's expectations and determine whether or not the vendor is genuine.

#### 5.6 Flexible

The option of private sale allows flexibility in sale terms and conditions and allows each party the opportunity to negotiate to its best advantage. There is no exclusivity afforded to any purchaser. However, the process may be prolonged if the vendor is unrealistic on price expectation.

#### 5.7 Popular at Lower End of Market

##### Public Auction

This method of sale remains popular at the lower end of the market. It may be less suited to larger investment properties but this will depend on your markets' practices. It is less popular with off shore investors whom may not have the ability to attend or the market knowledge necessary to give confidence to bidding at auction. In all cases, purchasers have already procured finance are required to undertake their enquiries prior to auction and therefore bid unconditionally. The benefit of the auction system is to provide a sales outcome to achieve the maximum price through competitive bidding.

#### 5.8 Outcome within Defined Time

The auction system can provide a sales outcome within a defined time period on sales terms acceptable to the vendor, usually an unconditional contract, with 10% deposit and settlement in 30 to 60 days depending on the common practice adopted in your state.

#### 5.9 Seen as Fairest for Estates and Forced Sales

The system is also seen and recognised by the courts as the fairest method for property disposal, especially for deceased estates and "forced sales".

#### 5.10 Unconditional Disadvantages

However, as mentioned there are potential purchasers that are either uncomfortable with the auction process or are unable to bid under an unconditional contract. They may have the ability to pay a higher price with the opportunity to vary the contract in a minor way. The practitioner's judgement as to target market and level of competition for a property is therefore vital to the successful outcome of an auction.

## **5.11 Confidential Offer**

### **Public Tender**

The Public Tender process allows purchasers to submit a confidential offer without fear of it being disclosed to competing parties. Offers are in the form of an unconditional contract prepared by the vendor's solicitors and are accompanied by a refundable deposit. Tenders are irrevocable and remain open for acceptance by the vendor for a set period of time. The time period for acceptance is determined having regard to issues like expected level of competition and complexity of the offering. The time frame enables vendors to compare offers, seek clarification or any variations to the terms of an offer, and extract the highest possible purchase price from the marketplace.

## **5.12 Used where Propriety is Paramount**

Sale by Public Tender is the formal step beyond Expressions of Interest. It is used in situations where propriety is paramount eg. Government offering property for sale and where the best price is generally accepted on uniform terms and conditions. It is used in the case whereby a property is likely to be keenly sought by a number of purchasers.

## **5.13 An Initial Calling**

### **Expressions of Interest**

This involves a sale method incorporating an initial calling for Expressions of Interest with suitably qualified parties identified from this initial stage either being subject to direct negotiation following closing of the Expressions of Interest or invited to participate in a further closed bid to determine the most acceptable offer.

## **5.14 Benefits**

This method provides the following:

- Greater reliance on due diligence in assessing the property prior to offer.
- National and International market acceptance due to the opportunity to participate in the first stage of the process with limited time and costs associated.
- Flexibility in terms offered can often influence the purchase price. Expressions of Interest allow variations to a standard contract of sale enhancing the prospect of maximisation of price to the vendor.

- Confidentiality of information to the invited bidders.

## **5.15 Two Staged Process**

A two staged Expressions of Interest process works as follows:

- The property is offered publicly to the investor market, and interested parties are invited to submit by a nominated date an Expression of Interest form confirming their interest, capability and price range.
- From the Expressions of Interest, suitably qualified parties are selected and invited to submit, on a due date, a formal bid. Final bids would be in the form of a contract.

The highest bidder (having regard to conditions and capability) is then accepted by the vendor and the balance of deposit paid.

# **6.0 Preparation of Disclosure Material**

## **6.1 Due Diligence an Integral Part of Preparation**

For larger properties in particular, due diligence has become an integral part of an offer to purchase and subject to the outcome of this activity will determine the purchasers preparedness to proceed to an unconditional contract. The due diligence package is now an integral part of the preparatory work for preparing property for sale. If the vendor is unwilling to address this issue before sale, and extended selling period is almost certainly assured.

## **6.2 Extent and Complexity Varies**

The extent of material exhibited generally becomes more significant and complicated as the property's value increases. The due diligence information should include all relevant information relating to the property that is likely to impact on the purchaser's decision to proceed to settlement.

## **6.3 Recommended Prior to Marketing**

Due Diligence information is often assembled after commencement of Marketing. As this process has gained particular relevance (and could potentially de-rail the transaction) it is recommended that preparation of the due diligence material be undertaken prior to commencement of marketing. The Member then has the opportunity to advise the owner of any adverse issues that could effect

both the potentiality of sale and achievable price. It is important to address these issues prior to sale than them becoming an insurmountable obstacle to settlement. It is better that all detrimental issues are dealt with prior to offering the property for sale.

### 6.4 Due Diligence Items ANZRPNG 6

Following is a list of Due Diligence items that are appropriate for inclusion in a "due diligence package":

- Easement Documentation - copies of easement documents and easement plans identifying the location of any easements on the property, the grantee, and requirements of that easement on the property and the owner.
- Leases - copies of all leases on the property or part thereof.
- Encumbrances - all encumbrances on title should be disclosed and relevant evidence provided.
- Contamination - a contamination report from the relevant State Government Department showing the status of the property. If the status indicates the property is contaminated or likely to be contaminated it is important to undertake further testing to provide a contamination report, including the extent of the contaminants and the cost of clearing the site. It may be necessary to undertake decontamination work (remediation) prior to marketing the property.
- Heritage / Land Use Issues - if a property is subject to a Native Title or Waitangi Tribunal claim, information regarding this land claim must be provided. If the property is listed as having some heritage significance, information relating to this must be identified and provided. It is further advisable to include any local government registration as this could have an impact on future dealings with the property.
- Main Roads / Local Government - Any requirements by either of these authorities for road widening, truncation or dedication must be identified and information provided.
- Flood Information - a flood report from the relevant local authority should be provided showing any history of inundation of a property due to flooding.

- Outgoings - an audited report on previous years' outgoings together with the current year's outgoings budget is important to provide an accurate outgoings estimate.
- General Rates and Land Tax Assessment Notices – it is important to include the most recent notices.
- Depreciation Information – both Building and items subject to Depreciation Allowance should be scheduled to provide the purchaser with knowledge of possible deductions against income for tax purposes.
- Council Compliance Certificate – inclusion of this document confirms absolutely Council's approval of the completed development at the time of construction.
- Approvals - any related approvals to the site for development or other future redevelopment.
- Other Reports - any other property reports that are relevant to the property and are likely to influence the purchaser's interest in the property and / or the sale price. This should include a full copy of building plans, any relevant site or soil reports, building structure reports, services reports, engineers reports, etc.
- Other Issues – refer ANZRPNG 6 Performing Due Diligence for guidance on other issues which may be applicable in certain circumstances.

Obviously the type and size of the property will influence the amount of relevant information. For instance, a residential house is unlikely to have any leases encumbering the property and much of the other information detailed above will probably not be appropriate

## 7.0 Marketing Material and Tools

### 7.1 Budget Determines Extent

The marketing strategy and budget will determine the extent of marketing material but in most cases the marketing tools available to the Member will be a combination of:

- Signage
- Advertising
- Brochure / video presentation

- Property information memorandum
- E-mail
- Internet
- Website

## 7.2 Due Diligence Material

The due diligence material would normally be at an accessible location for inspection by prospective purchasers. This could be the vendor's agent's offices or vendor's solicitor's offices.

## 7.3 Information Memorandum

The information memorandum is the most comprehensive marketing tool and addresses the following aspects of the property: -

- Location
  - Issues to be addressed are: -
- Accurate description of the property's location
- Proximity to public transport and amenities
- Quality of surrounding development including description of surrounding uses.
- Benefits of the location to the particular property eg. a high profile site has a considerable volume of passing traffic, an elevated site has unrestricted views, etc.
- Ease of ingress and egress.
- Photograph

The inclusion of a quality photograph highlighting the key aspects of the property is one of the strongest marketing tools available. The photograph should be digital to allow greater flexibility.

- Title Description

The full legal description should be inserted in the document with a photocopy of the title document if possible. Title description would give details of the lot, registered plan, parish and county together with land area and dimensions. This information provides the purchaser with an accurate identity of the property being acquired.

- Building Description

This description can be brief or comprehensive depending on the nature of the asset being sold. Obviously a detailed description gives the purchaser a better understanding of the asset being acquired. Items for mention include, date of

construction, date of additions or refurbishment, extent of built area, style of architecture, building construction methods, materials and finishes, services and maintenance.

- Land Description

Provides the purchaser with an understanding of the physical nature of the land, street access, services and particular features of the site, whether beneficial or adverse, which enable a full understanding of the nature of the land being acquired.

- Tenancy Information

Of more relevance to an investment property, the tenancy profile information and tenancy schedule give a full break down of tenancy information. Income, Outgoings and Financial Analysis complete the picture for the purchaser.

- Financial Details

Information as described under the heading "Preparation of the Property's Financial Details" would be provided in the information memorandum.

- Property Plans

Inclusion of floor plans and elevational drawings is desirable if available.

- Statutory Information

In addition to the financial information provided on an investment property there is usually the inclusion of council rates and tax information.

- Town Planning/Resource Management

This section of the report would cover such aspects as: -

- Current zoning
- Permitted development
- Status of existing uses
- Alternate consent uses and prohibited uses.
- Details of specific approvals obtained and certifications of any completed development.
- Detail of any external issue that is likely to affect the value of the property eg. land resumption due to road widening.
- Market Commentary

The information memorandum for larger properties, particularly of an investment nature can incorporate information on trends in rental values, property yields, competing property, comparable



sales and economic factors which may affect the future likely returns of the property. This, however, is at the discretion of the agent and client. In any event it is prudent for prospective purchasers to make their own enquiries.

## 8.0 Commencement of Marketing

### 8.1 Conclusion of Preparation

Prior to the commencement of marketing a due diligence review of all information to become public needs to be conducted to ensure accuracy.

The commencement of marketing which may be confirmed by formally placing the property on the open market, press release, or the appearance of the first advertisement offering the property for sale; signifies the conclusion of the preparation of the property for sale.

#### FOOTNOTE:

These notes have been prepared for general guidance. It is acknowledged that various State Governments have similar but not always identical legislation and consequently the practitioner is required to be aware of relevant legislation and local customs in applying these notes eg many of the items set out under headings such as "Preparation of Financial Details" and "Preparation of Disclosure Material" are covered in Victoria in the Vendor's Statement, prepared by the vendor's solicitor pursuant to Section 32 of the Sale of Land Act. The vendor's solicitor will generally liaise with the vendor and the appropriate authorities in collating the material. Nevertheless the practitioner should be familiar with the above prescription in Preparing Property For Sale and should not deviate from scrutinizing the process to ensure that a comprehensive professional and successful outcome is facilitated.

## SCHEDULE

Property Type	Specific Information Required in Preparing Property for Sale
<i>Commercial</i>	<p>Supply / demand statistics</p> <p>Car parking ratios</p> <p>Lift and air conditioning performance criteria and maintenance details</p> <p>Ceiling heights</p> <p>Ownership of fixtures and fittings</p> <p>Asbestos report</p>
<i>Shopping Centres</i>	<p>Trade area statistics and demographics information</p> <p>Percentage rental and turnover rent history.</p> <p>Door counts and other pedestrian traffic statistics</p> <p>Expansion potential of the existing centre</p> <p>Tenancy mix in regard to attraction to shoppers and a proportional breakdown of anchor tenants, national chain specialty shops and sole traders</p> <p>Accessibility, transport and car-parking interface • Arrears history Industrial</p> <p>Contamination report</p> <p>Transportation infrastructure</p> <p>Onsite heavy vehicle movement and access</p> <p>Height and clear span dimensions</p>
<i>Short Stay Accommodation</i>	<p>Trading history</p> <p>Projected performance</p> <p>Performance guarantees</p> <p>List of FF &amp; E together with ownership and age</p> <p>Related facilities and profit centres, eg. food and beverage, conference and recreational</p> <p>Occupancy levels</p> <p>Average room rates</p> <p>Customer profile</p> <p>Licensing issues</p>



<i>Residential Project Marketing</i>	Demonstration suite
	Finishes options
	Furniture and fittings package
	Body corporate provisions
	Details of common property
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<i>Residential</i>	Street appeal
	Presentation and physical condition
	Potential for re-characterisation and/or extension
	Access to amenities
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<i>Development Land</i>	Town planning
	Services available
	Indicative feasibility
	Architectural and other layouts/plans
	Any approved development material
	Alternate use studies
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