

m3 Dimensions

The Power of Vendor Due Diligence

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Institutional investors are the most active players in Australia's property markets. For some time they have recognised the benefits that can accrue from carefully planning a property investment strategy. This strategy includes an effective Due Diligence program on acquisition. Detailed due diligence has been an effective way to minimise risks and to provide a foundation from which a strategic asset management plan can be developed.

In our experience vendors can benefit from the same level of due diligence.

Vendor due diligence is usually a two-phase operation.

In the first phase, all the defects and potential problems of the property are identified. These may be legal or physical problems.

The defects are then diligently rectified to ensure they do not "cloud" the perception of potential purchasers and have a negative effect on the price they are willing to pay.

The second phase of due diligence is then undertaken on the property with all the defects having been rectified.

The benefits of vendor due diligence include the discovery of opportunities to maximise price by rectifying defects and through correct structuring of the transaction while minimising risk to the vendor. The process and documentation form the basis for a comprehensive property information memorandum.

Potential purchasers are able to use the documents as a basis for their bid price. This can have a positive influence on price as doubts and risks are removed or at least defined. It also enables purchasers to make informed decisions without costly and timely due diligence exercises.

Once a property information memorandum has been prepared it is easier to solicit interest from a greater number of prospective purchasers, which may also help the vendor achieve a higher selling price.

The memorandum becomes a substantial platform for the purchaser's own due diligence process.

Another function of the due diligence report is to protect management from a negligence lawsuit by disgruntled stakeholders who may believe the property was not maximised in terms of value prior to sale.

Vendors and purchasers are finding that for corporate governance reasons, it is prudent to undertake due diligence thoroughly and more effectively as their performance is under continuous scrutiny.

They are also concerned about issues that may not be of concern today but may be significant in say three years time.

We believe a professionally prepared due diligence report can be an important negotiating tool for acquisition purposes and an essential marketing tool for the disposal of property.

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