



Our experts have created valuable checklists for virtually every property situation to ensure all your commercial real estate transactions proceed smoothly.

### **Why do people invest in commercial real estate?**

Here are some of the most important reasons why people invest in commercial real estate:

- Cash flow from ongoing operations of the property.
- Tax shelter generated by the property (for some of the property's cash flow as well as some of the gain when the property is sold).
- Anticipation of appreciation in the value of the property over the holding period.
- Equity generated by reducing principal balance of the underlying debt.

There are a half-dozen key property categories, each having individual characteristics that must be understood before investing. Categories are:

- Office
- Industrial
- Retail Multi-Family
- Hotel/Motel
- Land

All categories should be understood in terms of overall economic conditions, local market conditions/marketing issues, and individual property conditions. The following questions apply to all categories. Your real estate advisor should be able to provide accurate answers to these questions. Click individual categories for more specific questions.

### **Questions to Ask About Office Properties**

1. Is the location considered desirable? Is it easily accessible from highways, major thoroughfares, and mass transit? Does it have good visibility? "Curb appeal?"
2. Do leases contain strength and length in case the property needs to be refinanced?
3. Is base rent sufficient to cover the cost of operating a full-service building?
4. Are there special amenities, such as food service or convenience shopping, to give the building a competitive advantage?
5. Is cash flow sufficient to pay leasing and tenant improvement fees in case of turnover?
6. Are HVAC and elevator systems state-of-the-art or will you be required to upgrade the building? How much will this cost?

7. How efficient is the layout of the building? How does it compare in efficiency to other office buildings in the market?
8. How effective is management in responding to tenant needs? In communicating to tenants?
9. What economic conditions are expected to prevail when major leases expire?
10. What is the property's reputation in the business and real estate brokerage community?
11. Are there opportunities to generate ancillary income, such as leasing rooftop or riser space for telecommunications vendors?
12. Has the building ever had any problems with asbestos, indoor air quality, or other environmental issues? If so, how were they resolved?

### **Questions to Ask about Industrial Properties**

1. Is the facility technologically current?
2. Have there been any environmental problems associated with the property? If so, how have they been resolved?
3. Does the municipality, county, or state offer incentives for major industrial tenants in the area? Have other industrial users in the area recently received incentives? What type?
4. How accessible is the property to major distribution routes, such as highways, rail lines, or airports?
5. What is the makeup of the area's labor pool? What are prevailing wages and benefits?  
What is the competition for this labor pool from industries and users in the area?
6. What industries are growing in the area? Which are contracting?
7. How does this property's physical plant compare with others in the market?
8. Are lease or sale terms comparable with other properties in the area? Is leasing and/or sales velocity increasing or decreasing in the area?
9. What is the property's reputation in the business and real estate brokerage communities?
10. What is the lending community's attitude about investing in industrial properties in the area?

### **Questions to Ask about Retail Properties**

1. Are the goods and services sold in the center compatible with trade-area customers? What is the trade area? Have there been any recent changes in demographics and/or retail demand?
2. Are stores in the shopping center compatible with the retail property type?
3. Is competition balanced?
4. Do stores complement each other and enhance the drawing power of other stores?
5. Is the merchants association active? Is it effective?
6. How do stores perform compared to national median operating results of similar businesses?
7. Is the property located in an attractive trade area in terms of potential customers, buying power, convenient access?
8. What are the competing retail locations and how are they performing? Are there proposed new retail centers in this market?

9. Does the property have any unique characteristics - such as movie theaters, outstanding restaurants, and interactive entertainment - that provide a competitive advantage?
10. What is the property's visibility: signage; front footage; street footage; windows?
11. How well are less-visible functions performed: storage; shipping and receiving; HVAC control; security; life safety?
12. Can the property be expanded or reconfigured to meet market preferences?

### **Questions to Ask about Multi-family Properties**

1. What are demographic and employment trends in the area? Are young professionals attracted to the area?
2. How competitive is the property, in terms of rents, layouts, amenities, construction quality, and access to transportation and services in the area? Is its vacancy rate in line with comparable multifamily properties?
3. Are any new multifamily developments proposed for this market? How much zoned and approved apartment land is available within the market area of the property?
4. What are the issues in the market with respect to rent control, subsidized, or assisted housing?
5. Does the property contain any subsidized units? Is it subject to any such requirements now or in the future?
6. What is the tenant mix of the property? Has tenancy been stable or has there been a considerable amount of turnover? What are lease terms?
7. What is the property's curb appeal? Does it have any special amenities, such as a pool, fitness center, or covered parking that would give it a competitive advantage?
8. Has there been a history of theft, property damage, or other criminal activity at the property?
9. What is the property's reputation in the apartment brokerage and tenant community?
10. What are existing policies regarding security deposits, pets, storage, and use of facilities?
11. What steps are necessary to evict a tenant in this jurisdiction? Have there been any rent strikes?
12. Are properties subject to immediate reassessment after a sale? What method is used to calculate assessed value after a sale? How often are properties reassessed?
13. Does the property contain any asbestos, radon, bentonite soils, PCBs, formaldehyde, or any hazardous waste? Are there any electrical transformers on the site?
14. Are there any service and maintenance contracts that must survive a sale? Which services can be canceled and what notice periods are required?

### **Questions to Ask about Hospitality Properties**

1. What has been the property's track record of occupancy/vacancy rates for the past several years? How does this compare to other hotel/motel properties in this market? What is the pattern of occupancy (i.e., weekdays versus weekends)?

2. How competitive is the property in terms of rates, quality, room size, amenities, and service?
3. Has there been an increase or decrease in the volume of business- and business-conference-related activity?
4. What is the property's image/brand name? Is its reputation strong? Is it visible from nearby roads? Does it offer ease of access?
5. What is the property's reputation in the business, travel, and event planning communities? How well trained is the front desk staff? Is there a high percentage of staff turnover?
6. What is the quality and style of interior decor: furnishings, colors, materials, and lighting?
7. Does the property have a reputation for outstanding food? Service?
8. Does the property offer any special features or amenities that give it a competitive advantage, such as pool, fitness center, high-speed Internet access, and document-copying services?
9. How effective have its marketing and promotional campaigns been? What percentage of guests' returns for subsequent stays? How much business do "frequent guest" programs generate?
10. How effective are the property's security/life safety procedures and systems? Has there been an undue amount of theft or property damage?

#### **Questions to Ask about Land**

1. What is the highest and best use for the property? What is the best use in terms of the market: Retail? Industrial? Office? Multifamily?
2. What does the parcel's zoning call for? Are there any regulatory authorities beyond the municipality that must review plans for the parcel?
3. What is the optimum size of the commercial operation that the parcel could support?
4. What is the market value of the land? Have comparable parcels been sold in the area recently? If so, for how much? For what purpose?
5. What are the physical characteristics of the parcel: soil, slope, drainage, and topography?
6. Are there any environmental constraints on the property? Is it a brown fields site? Is it in a flood plain? Are there hazardous waste issues?
7. What is the prevailing attitude among local regulatory authorities toward land use issues? Is the rezoning application process relatively straightforward or lengthy and contentious?
8. What is the parcel's access to roadways, rail services, and area amenities? If no direct access were available, what would be the cost of providing it?
9. What are the physical systems supporting the property: sewers, roads, power, water, waste disposal, and telephone and cable systems?
10. What are hookup charges for utilities? What is the general quality of utility servicing?
11. How is the land taxed currently?
12. What is the path of growth in the market? What are the development trends?

#### **Questions to ask about overall economic conditions**

1. At what rate is the economy growing?
2. What are employment/unemployment trends? Which industries are growing the most? The least?

3. What are consumer-spending trends?
4. What is the generally accepted productivity rate?
5. What are wholesale price trends?
6. What are interest rate trends?
7. What are the trends in new home starts? New home sales? Home resales?

#### **Questions to ask about local market conditions/marketing issues**

1. Do local economic conditions match national trends? If not, what special conditions prevail?
2. How does the income from a prospective investment compare with other comparable properties in the area on a per-square-foot basis?
3. Is competition anticipated at existing rental rates? At what rate will it begin?
4. Is there potential for future competition at or below the property's rental rates? What new construction is planned or underway?
5. What has happened to land values over the last several years? Comparable building values?
6. What is the vacancy factor in the area? What is the absorption rate? At what point in the real estate cycle is the local market?
7. What is the financial community's attitude about commercial real estate investments? What equity requirements do lenders have? What property type preferences have they shown? Are financing prospects better for existing properties than for new construction?

#### **Questions to ask about individual property conditions**

1. Is the gross income increasing, decreasing, stable, and why?
2. What is the financial strength of the tenants? Are their industries growing or contracting?
3. Are the expenses being used in the analysis realistic projections of what a new owner can expect? Will taxes go up or down based on the new acquisition price?
4. What is the property's reputation in the business and real estate brokerage communities?
5. Is the building functionally or technologically obsolete? If so, what would it cost to upgrade the building?
6. Can an owner add value by upgrading the building - physically and esthetically - by improving management; marketing to new tenants at higher rates, as leases roll over; or by giving the building a competitive advantage through technology?