Handle
PROPERTIES

# Handle Properties - Due Diligence Process

## 1. Suburb and Market Screening

Every suburb passes a four-lens screening process before a single property is considered. Data is sourced from HtAG Analytics, REA, Domain, ABS Census, CoreLogic, and state planning registers. All four lenses must clear their hurdle. One failure removes the suburb from the shortlist.

### Lens 1 — Demand Signals

- **Population growth rate:** Target above 1% per annum, driven by ABS Estimated Resident Population data and migration flows. Sustained growth creates a demand floor that underpins rent and capital values.
- **Net migration: interstate and overseas:** Sustained inflow into a region signals genuine demand, not just natural increase. Suburbs experiencing net outflow are excluded entirely.
- **Owner-occupier ratio:** Above 60% is the threshold. High owner-occupier concentration signals community stability, land price support, and lower tenant turnover in the surrounding area.
- **Rental vacancy rate:** Sub-2% is the non-negotiable entry threshold across all markets. Anything above 3% requires exceptional justification and rarely proceeds.
- **Days on market trend:** Falling days on market indicates tightening supply and increasing buyer competition. Rising days on market triggers caution regardless of other metrics.
- **Vendor discount rate:** The gap between list price and sale price. Above 3% typically signals oversupply or a market where vendors are motivated. We target below 3%.
- **Search volume trend:** Rising search interest in a suburb precedes price movement by 3 to 6 months.. A flat or declining trend is a yellow flag.

### Lens 2 — Economic Drivers

- **Median household income (SA2 level):** ABS SA2 median income target is $70,000 or above. Below this level, rent-to-income ratios tighten and affordability stress increases arrears risk.
- **Income growth trajectory:** Wage growth above CPI ensures tenants can absorb rent increases over time. Stagnant wages in a market signal a rental ceiling is approaching.
- **Unemployment rate vs state average:** Regional unemployment above the state average is excluded from the shortlist. A market where workers are leaving is not a market where we buy.
- **Employment diversity score:** Single-industry towns carry sovereign risk. If the mine closes or the factory shuts, the suburb empties. We require at least three distinct major employer types.
- **Major employer anchors:** Hospitals, defence bases, universities, and government offices drive stable, long-tenure tenant demand. These institutions do not relocate and their staff need housing.
- **SEIFA and IRSAD decile:** Socio-Economic Indexes for Areas. We require decile 5 or above (subject to your budget) Below decile 4, arrears rates historically increase and tenant quality becomes more variable.
- **Government infrastructure spend:** High infrastructure spend precedes population growth and land value appreciation. We manually catalogue a database of local, state and federal projects across Australia.

### Lens 3 — Supply Constraints

- **Land release pipeline:** Council zoning and rezoning risk is assessed. Large greenfield release pipelines in the same corridor suppress capital growth by providing competition for new buyers.
- **Building approvals trend:** 12-month rolling approvals tracked. Rising approvals into a flat or declining market compresses yield and growth. We want to see stable or falling approval volumes.
- **Apartment and off-the-plan oversupply check:** High-rise and off-the-plan pipelines are reviewed at the postcode level. We avoid postcodes with 500 or more units already approved. Apartments are excluded from our buy list entirely.
- **Urban Heat index (UH ratio):** Metric measuring density change within a suburb. High UH indicates gentrification or densification. Helps identify suburbs in transition before prices move.
- **Urban Heat-to-Value ratio (UHV):** Identifies suburbs where density is rising but prices have not yet caught up. A high UHV signals potential upside that the market has not fully priced in.
- **Knock-down rebuild score (RCS):** Higher RCS means land value underpins the property. The building becomes less relevant. This is a strong indicator of land banking potential and renovation upside.
- **Flood, bushfire, and heritage overlays:** State and council mapping reviewed for all shortlisted properties. Flood-prone land is excluded unless the location premium substantially justifies the risk and insurance cost.

### Lens 4 — Capital Growth Profile

- **10-year median house price CAGR:** Houses only. Units and townhouses are tracked separately but are not on our buy list. We target above 5% per annum compounding over the last decade as a minimum.
- **CPI-adjusted real price growth:** Nominal gains stripped of inflation. Real growth must be positive over any 10-year period we review. Nominal gains hiding behind high CPI are not growth.
- **Price-to-income ratio trajectory:** Affordability ceiling risk. Excessive price-to-income ratios cap future growth and widen vacancy. We monitor this metric as a constraint, not a target.
- **Comparable suburb benchmarking:** SA2-level peer comparison. Lagging suburbs within strong corridors that share the same infrastructure and employment base often offer the best entry points.
- **Gross rental yield:** Minimum 4.5% gross. Net cash flow is then modelled at the client's current borrowing rate and again at that rate plus 2% as a stress test. Both must be serviceable.
- **Discounting score:** Measures how aggressively vendors are cutting their asking price. Below 5% means it is a tight market where sellers hold leverage. A strong signal of demand depth.
- **Primary school catchment rank:** Above the 50th percentile in state ranking. Strong school catchments anchor family tenant demand, reduce vacancy duration, and support long-term land values.
- **Committed infrastructure pipeline:** Roads, hospitals, rail (where not adjacent to the property), and education precincts within 5 kilometres. Minimum $50 million in committed spend preferred.

**Hurdle rule:** All four lenses must pass their threshold. One failure removes the suburb from the active shortlist. No exceptions and no overrides based on a compelling individual property.

## 2. Physical Property and Location Due Diligence

Clearing the suburb screen is the entry ticket. Each individual property then runs a second filter covering location quality, physical condition, site suitability, and legal title. Properties that fail any hard disqualifier are declined regardless of how strong the financial case looks.

### Location Red Flags — Automatic Disqualifiers

The following characteristics automatically remove a property from consideration. There is no negotiation on these points.

- **Adjacent to a public or social housing estate:** This suppresses capital growth and rental demand permanently. It is not a short-term effect that resolves with time. The valuer discounts it, the buyer pool shrinks, and the tenant pool narrows. We do not buy in these locations.
- **Within 200 metres of an active train or freight line:** Noise, vibration, and buyer perception all create a permanent discount. Valuers mark these down. Insurance is harder to place at full replacement value. The resale pool is meaningfully smaller.
- **Backing onto or adjacent to an arterial road:** Traffic noise, air quality, and the permanent absence of rear privacy shrink the resale pool. The tenant who wants this property is not the tenant profile we are targeting.
- **Under a flight path approach corridor:** Valuers flag it. Tenant turnover is higher. Yield compression over the holding period is well documented. The discount is structural, not cyclical.
- **Industrial zone on the boundary:** Smell, noise, operating hours, and the risk of zoning changes all affect surrounding land values. We do not buy residential property abutting industrial land.
- **Flood overlay at 1-in-100-year event frequency or more frequent:** Insurance costs spike materially. Lender LVR restrictions reduce the buyer pool. Council development restrictions limit future use. Resale becomes harder with each flood event.
- **Known contamination, remediated landfill, or ex-petrol station nearby:** Potential future remediation liability can attach to neighbouring land owners. Title risk and valuation uncertainty both increase.
- **Isolated suburb with a single road in and out:** Emergency services access is impaired. Tenant perception is poor. Infrastructure catchment is limited. These suburbs are disproportionately affected by any single infrastructure disruption.

### Site Conditions

- **Slope and gradient:** Steep lots above approximately 10 degrees add holding cost through retaining walls and drainage requirements. Usable land area is reduced. We prefer flat or gently sloping blocks.
- **Orientation and solar access:** North-facing living areas are preferred. Solar passive design reduces tenant energy costs, improves liveability year-round, and is a genuine resale advantage in most markets.
- **Land size relative to suburb median:** Land content is the primary driver of long-term capital growth. Undersized lots consistently underperform. We target at or above the suburb median land size.
- **Easements, rights of way, and title covenants:** These are identified in the seller disclosure review before any offer is made. They can restrict future development, affect building placement, or limit the use of the land in ways that are not immediately visible.

- **Soil type and drainage behaviour:** Clay soils in Queensland and Victoria cause footing movement over time. This is reviewed during the building inspection. Drainage patterns are assessed on site where possible.
- **Neighbouring land use and presentation:** Poorly maintained adjacent properties, commercial storage visible from the street, or unlicensed operations nearby all affect tenant attraction and long-term value.

### Building and Pest Inspection

- **Roof condition, age, and material:** Colorbond, tile, and fibre-cement roofing are all assessed. Age, ridgeline condition, guttering, and downpipes are reviewed. Pre-1985 builds are checked for asbestos sheeting, which is common in regional Queensland, the Hunter Valley, and the Latrobe Valley.
- **Sub-floor, footings, and slab integrity:** Stumps, piers, and concrete slabs are all assessed. Movement, settlement cracking, and moisture ingress are the primary concerns. Any active movement triggers further investigation.
- **Termite and active pest activity:** Full thermal imaging and a physical probe are conducted by a licenced inspector. Any live termite activity triggers either a price renegotiation to fund treatment and remediation or a clean exit under the building and pest clause.
- **Electrical and plumbing compliance:** Safety switch installation, smoke alarm placement, hot water system age, and drainage condition are all checked. Non-compliant items are flagged and must be rectified before exchange or priced into the offer.
- **Defect classification: major versus minor:** Major structural defects trigger a request for vendor rectification or a reduction in the purchase price. Minor cosmetic issues are accepted and the remediation cost is built into the financial model.
- **Estimated capital expenditure within three years:** Roof, hot water system, kitchen appliances, floor coverings, and fencing are all assessed for remaining useful life. A 3-year capex provision is modelled as a holding cost. Negative cash flow surprises are avoidable.

### Legal and Title Review

- **Section 32 and Contract of Sale review:** Reviewed on receipt, before the client is briefed on the opportunity. Title, any owners corporation obligations, outgoings, and special conditions are all checked at this stage.
- **Title search: encumbrances, easements, and caveats:** Registered interests, rights of way, and any restriction on use or future sale are identified. Any restriction that affects the investment thesis is flagged immediately.
- **Special conditions negotiated pre-exchange:** Finance, building and pest, and settlement flexibility clauses are included as standard on every contract. The client has a clear exit path if any condition is not satisfied.
- **Conveyancer engaged before exchange:** Our conveyancer is briefed and ready before the client signs anything. Engaging a conveyancer post-exchange is a risk we do not take on behalf of clients.
- **Owners corporation and body corporate records:** Strata and body corporate financials are reviewed for levy arrears, special levies already raised, and the adequacy of the maintenance reserve fund.

**Our standard:** If we would not put our own capital into it, we do not recommend it. Every property is tested against that benchmark before it reaches a client.

## 3. Financial, Tenancy and Rental Due Diligence

The final layer validates the investment case in full. Are the numbers real? Is the tenant pool deep enough? Can those tenants actually afford the rent? Will the lease hold up over time? Every client's position is modelled individually, not from a template.

## Financial Modelling

- **Gross and net yield calculation:** Two independent rental appraisals are obtained. The lower of the two figures is used in every model. Net yield is calculated after all holding costs: property management fees, council rates, water rates, landlord insurance, and a maintenance allowance. We do not present gross yields to clients as if they were net.
- **Cash flow stress test at current rate plus 2%:** Every property is modelled at the client's current borrowing rate and then again at that rate plus 2%. The investment must be serviceable at both. If it is not, we do not proceed.
- **Total acquisition cost breakdown:** Purchase price, stamp duty, conveyancing fees, building inspection cost, insurance setup, property management setup, and a 3-month vacancy buffer are all included in the acquisition cost model. There are no hidden costs.
- **Depreciation schedule estimate:** A quantity surveyor benchmark is applied based on build year and property type. The depreciation benefit is included in the after-tax cash flow calculation. This is a real and material benefit for most investors.
- **3-year capital expenditure provision:** Roof, hot water system, major appliances, and cosmetic refresh are all assessed for remaining life and costed into a reserve. This sits in the model as a holding cost, not as a surprise.
- **Portfolio impact modelling:** Each acquisition is modelled against the client's existing portfolio. Borrowing capacity impact, loan-to-value position across the portfolio, and concentration risk by geography and price point are all reviewed before a recommendation is made.
- **Rental growth assumption:** Rental growth is benchmarked against suburb wage growth and historical lease renewal data in that market. We do not assume above-market rental growth in the model. Conservative assumptions protect the client if the market softens.

## Tenant Profile and Affordability

A good suburb with a good property can still generate poor returns if the tenant pool is shallow, stressed, or mismatched to the property type. We assess this explicitly.

- **Rent-to-income ratio check:** The target rent must not exceed 30% of the median household income for that suburb. Above 30%, tenants are in housing stress and turnover increases materially. Above 35%, arrears rates climb. We use this as a hard constraint on what we recommend, not just a note.
- **Dominant employment type in the suburb:** PAYG employees in essential services — health, education, government, trades, and logistics — are the most reliable tenant cohort. They have stable income, are not self-employed, and are less affected by economic cycles. We profile the local employment base before recommending a property.
- **Jobs within commuting distance:** We assess drive time to the nearest major employment hub and the quality of public transport access from the suburb. Tenants stay longer when the commute is manageable. A suburb with poor jobs access has a structurally weaker tenant pool regardless of other metrics.
- **Industry concentration risk:** If the local economy is heavily concentrated in a single industry — mining, tourism, agriculture — a sector downturn can empty a suburb quickly. We check the employment concentration index and avoid markets where more than 40% of employment sits in a single sector.

- **Tenant demographic match to property type:** Four-bedroom houses near primary schools attract families. We match the property type to the dominant local tenant profile, not the other way around. Buying a family home in an area dominated by students or retirees creates a structural vacancy risk.
- **Vacancy duration benchmarking:** Recent comparable leases within 500 metres of the subject property are checked. If comparable properties are sitting more than 3 weeks in that suburb, it is flagged. If that is the market pattern, we reassess the recommendation.
- **Rental demand:** Suburb-level vacancy data can mask pockets of weak demand within an otherwise healthy suburb. We use grid data at the 500 metre radius level to confirm demand at the specific price point and location, not just the suburb average.
- **Rental affordability stress index:** SEIFA IRSAD score and median income are combined to generate a suburb-level affordability stress index. Markets where the rent-to-income ratio exceeds 35% historically show higher arrears, longer vacancy, and higher PM churn. These markets are avoided.

### Rental Appraisal and Property Management Selection

- **Two independent rental appraisals:** One appraisal is obtained from the proposed property manager and one from a competing agency in the same suburb. We use the lower of the two figures in every model. A single appraisal from the selling agent's preferred PM is not sufficient.
- **Property management fee negotiation:** We leverage our transaction volume across agencies nationally to secure below-market management fees for clients. The typical market rate is 8 to 9% all-inclusive. We consistently achieve 6 to 7%.
- **Property manager track record in the suburb:** We only engage property managers with a demonstrated leasing track record in the specific suburb. A metropolitan PM managing a regional portfolio from a distance is not adequate.
- **Lease-up timeline versus settlement date:** The property is listed for lease before settlement wherever possible. The goal is a signed lease in place before keys change hands. Eliminating the initial vacancy period is straightforward with good sequencing.
- **Landlord insurance bound before going unconditional:** The insurance policy is reviewed and bound before the contract goes unconditional. Default cover, malicious damage, and loss of rent cover are all required as minimum conditions.

### Lease Review and Ongoing Compliance

- **Existing lease review for tenanted properties:** If a tenant is in place at settlement, the existing lease is reviewed in full: rent versus current market, lease expiry date, break clause terms, and bond compliance. Under-rented properties are flagged immediately and a plan is put in place for the first renewal.
- **Lease type: fixed term versus periodic:** Fixed-term leases provide income certainty and are preferred. Periodic tenancies are assessed for risk. We advise on the optimal lease length based on the specific market conditions at the time of leasing.
- **Annual rent review mechanism:** An annual rent review clause is included in new leases wherever legislation permits. CPI-linked or fixed percentage increases are negotiated with the property manager at the time of new lease execution.
- **Tenant screening standards:** Reference checks, rental history verification, income verification, and a credit check are non-negotiable requirements we set for every property manager we engage on behalf of clients. We do not accept PMs who skip steps.
- **Arrears management protocol:** The property manager must have a documented arrears process. Day 3 is a phone call. Day 7 is a formal written notice. Day 14 is a breach notice. We

review the PM's arrears protocol before engagement. Poor arrears management is the primary cause of preventable landlord losses.

- **Routine inspection frequency:** Minimum quarterly inspections in the first year, moving to six-monthly thereafter. Inspection reports are shared with the client and reviewed by Handle. A PM who cannot provide timely inspection reports is replaced.
- **Lease renewal strategy at 90 days before expiry:** The property manager is briefed to begin the renewal conversation with the tenant no later than 90 days before lease expiry. Vacancy caused by poor communication and slow execution is avoidable. We set this expectation at the start of the management relationship.
- **Legislative compliance by state:** Victoria, Queensland, New South Wales, and South Australia all have different minimum property standards, notice period requirements, and tenant rights frameworks. We confirm the property and the PM are compliant with current legislation in the relevant state before settlement.

**The outcome:** A tenant who can afford the rent, will stay, and can be managed within a compliant framework. That is what protects the return over the full holding period.