

## ***Due Diligence Checklists***

Let's look at due diligence as a process and as a flow of getting tasks done. Splitting it up into three categories will make it a lot easier to follow and keep track of. The three categories are: PHYSICAL, FINANCIAL, and LEGAL. A checklist for each category has been developed.

**Physical due diligence** – this involves physically stepping onto the grounds and interior of the property. Much like a home inspection, you'll be checking the integrity of the exterior, interior, structure, electrical, plumbing, and heating. You'll also be conducting a rent survey for marketing purposes.

**Financial due diligence** – you'll verify all of the financials that were given, shown, and shared with you. This includes all income and expenses data, taxes, etc.

**Legal due diligence** – the property's title, survey, any 3<sup>rd</sup> party reports, zoning, code compliance, warranties, etc. will be thoroughly examined.

**How to use the checklist:** under each category, check off and verify each line item as it pertains to your deal.

## Due diligence checklists – Physical, Financial, Legal

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### Pre-Physical due diligence checklist

Property: \_\_\_\_\_ By: \_\_\_\_\_ Date: \_\_\_\_\_

First impression		Security	
Exteriors		Waste removal	
Structure		Fire prevention	
Decor		Floor plans	
No. of bldgs.		Last renovation	
Total sqftg.		Appliance package	
No. of units		Floor coverings	
Roofs		Window treatments	
Age of improvements		Hallways	
Landscaping		Mailboxes	
Parking lot		Light fixtures	
Parking availability		Decorations	
Lighting		HVAC systems	
Signage		Laundry	
Leasing office		Amenities	
Models		Bathrooms	
Percent occupied		Lobbies	
Rental rates		Ramps	
Neighborhood		Handicap access	
Street access		Traffic count (cars)	

### Physical due diligence checklist

Task	Due Date	Completed	Notes
Get As-Built plans and specifications			
Get property conditions report: soils, environmental, structural, if any			
Schedule/Review Physical Inspection Report			
Get previous appraisals, if any			
Schedule/Review Termite Inspection – if needed			
Review Property Management Contract			
Police Reports/Reputation of Property  Go to ApartmentRatings.com and ApartmentReviews.net to check upon what dissatisfied tenants are saying about the property and mgmt.			
Interview Property Management Company			
Obtain Capital Improvements History for past 5 years as well as capital improvements potentially needed			
Inventory Personal Property (furniture, office equipment, tools, etc.) to be left behind for your use			
Apartments Rent/Spaces Available? * How many turnable? * How many “down”?			
Any Outstanding Building Construction or Unfinished Projects?			
Obtain 3 Contactor Rehab Quotes – if needed			
Obtain Sales Comps			

Perform Market Rent Survey			
Aerial photographs			
Hire Plumber for Plumbing Scope			
Is it zoned properly and used properly?			
Contact Chamber of Commerce find Economic Dev. Dept Research job growth data and future city plans.			

The second component of physical due diligence is to perform a **market comparison survey** of competing properties. This will give you evidence to support your hopes of a rent increase or not. Compare the info gathered to your (subject) property.

### Property Comparable Table

**Property:** \_\_\_\_\_ **By:** \_\_\_\_\_ **Date:** \_\_\_\_\_

	Subject Property	Comparable #1	Comparable #2	Comparable #3
Property				
Unit/space sqftg.				
Current rent				
Concessions?				
Item	Description	Description	Description	Description
Location				
Age & Condition				
Appearance				
Roof (flat/pitched)				
Parking				
Amenities				
Carpeting				
Appliances				
Windows				
Storage				
Utilities –paid				
Mgmt Co Name				
Rent/sqft				

**Discuss with Peter – the marketing plan currently implemented (if there is one).**

**Make notes here:**

- A. What do you have that the competition does not have?**
- B. What does the competition have that you don't?**
- C. Are you outperforming or underperforming in the market (rent, curb appeals, etc.)?**

### Financial due diligence checklist

Item	Description
Current Rent Roll	
Collections of rent – <ul style="list-style-type: none"> <li>a. delinquency report 30, 60, 90 days past due</li> <li>b. prepaid report</li> </ul>	
Accounts receivable report – for past 24 months	
Accounts payable report – for past 24 months	
Property Income & Expense Reports for last 3 years, if available	
Owner/property tax returns for last 3 years	
Does owner have current operating budget?	
Work with PM company on creating annual operating budget (projections)	
Create rehab budget from bids	
Year-to-Date Real Estate Tax Bill for current and prior year	
Review All Leases and Addendums and Check: expiration dates, security deposits, all leases are signed, how many expire in same month, security deposit on file	
Contact utility companies for actual expenses	
List of all lease concessions and incentives	
Get Financial Approval from Lender within Contingency Dates	

## Legal due diligence

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My first concern with doing this part of due diligence is making sure there are no liens from contractors, subcontractors, workers, or material suppliers. This can hold up the deal from closing. Also, give extra scrutiny to building code violations and zoning/use infractions.

### Legal due diligence checklist

Item	Description
Get copy of purchase contract to lender/attorney/title company	
Send Earnest Money to Title Company	
Preliminary title report review	
Secure title insurance	
Obtain property survey	
Environmental compliance – phase 1 assessment	
Current insurance policy: run loss report for fire/flood/liability claims	
Review Service Contracts (laundry, landscape, HVAC, etc)	
Obtain 3 insurance quotes	
Obtain copies of licenses, permits, & certificates if any	
Obtain Copies of All Surviving Guarantees and Warranties	
Match current zoning with current use	
Local code compliance	
Get current staffing report and list of employee benefits packages	

## NOTES