

# Due Diligence Checklist

Start this process even before you make the offer; some information is available through open source and some of it will be known by the listing agent. Make sure that your Offer to Purchase includes provisions allowing you to review (and approve) certain documents and have certain inspections done prior to closing on the property.

## **Auditing the Files**

To verify actual income, obtain and review:

- Rental agreements - signed by the tenants and specifying the amount of the rent.
- Documents showing deposit amounts.
- Any rental histories showing late payments, problem tenants, etc.

## **Interior Inspection**

To learn about the place, the residents, and the future repairs you'll have to make, watch for:

- Any empty apartments listed as rented.
- Any pest problems.
- Missing, old or broken appliances.
- Any water or fire damage.
- Any obvious "problem tenants."
- Anything that will need repairing soon.

## **Exterior Inspection**

- Roof condition, age and problems.
- Electrical and plumbing systems up to date, and to codes.

\_\_\_ Heating, ventilation and cooling systems - age and condition.

\_\_\_ Paint and trim condition.

\_\_\_ Driveways and parking areas.

\_\_\_ Landscaping and irrigation systems.

### **Service Agreement Reviews**

To know what contracts and agreements there are, and whether they will transfer:

\_\_\_ Property management agreements.

\_\_\_ Pool cleaning.

\_\_\_ Cooling system maintenance.

\_\_\_ Heating system maintenance.

\_\_\_ Laundry machine contracts.

\_\_\_ Cable or satellite television services.

\_\_\_ Alarm system services.

\_\_\_ Landscaping services.

\_\_\_ Snow plowing services.

\_\_\_ Anything else.

### **Government Compliance Check**

To see if property is in compliance with codes, zoning, etc:

\_\_\_ Ask about any permit problems.

\_\_\_ Ask local authorities about zoning violations or encroachments.

\_\_\_ Check into fire code violations, see if fire department will inspect for you.

\_\_\_ Inspect for environmental problems (asbestos, mold, lead paint, radon).

#### Books And Records

\_\_\_ Get 24 months income and expense statements.

\_\_\_ Look for any unusual things in the books (expenses too low, income too high).

\_\_\_ Review service agreements and whether you have to assume them as the new owner.

\_\_\_ Review the current rent roll - see if rents are under or over the market rates for the area.

\_\_\_ Look at utility bills for the last year.

\_\_\_ Call utility companies and ask if increases are coming soon.

\_\_\_ Check payroll records for unusual arrangements, accrued vacation time you'll have to pay, etc.

#### Follow Up

\_\_\_ Get an accountant to review any suspect documents.

\_\_\_ Have your lawyer review your offer and other paperwork.

\_\_\_ Ask your attorney about any other due diligence you should do.

\_\_\_ Take notes on any problems, and list costs to correct, to use during subsequent negotiations.

Most problems that investors run into when buying income properties are not really unforeseeable. Most problems that show up later could have been known if a simple due diligence checklist like this one was actually used during the buying process.