

Real Estate Due Diligence

This playbook outlines the steps necessary to perform due diligence in a real estate transaction. It is designed to guide a buyer or investor through the comprehensive evaluation process of the property's legal, financial, and physical conditions.

Step 1: **Documentation**

Gather and review all necessary property documents including titles, deeds, zoning documents, recent tax statements, and previous inspection reports. Ensure the seller has clear ownership and there are no legal encumbrances.

Step 2: **Title Search**

Conduct a thorough title search to confirm there are no liens, disputes, easements, or encroachments that could affect the title's transferability or the buyer's intended use of the property.

Step 3: **Inspection**

Hire a licensed inspector to perform a comprehensive property inspection. Assess the building's condition, identify any structural issues, and estimate the cost of necessary repairs.

Step 4: **Appraisal**

Obtain a professional appraisal of the property to determine its current market value and ensure the purchase price is in line with similar properties in the area.

Step 5: **Financial Review**

Review all financial aspects related to the property. This includes examining rent rolls, operating statements, utility bills, and any service contracts to assess the property's profitability and cash flow potential.

Step 6: **Legal Compliance**

Verify the property's compliance with local, state, and federal regulations. This includes building codes, Americans with Disabilities Act (ADA) standards, and environmental laws.

Step 7: **Negotiations**

Based on the findings from the due diligence process, enter negotiation with the seller to discuss price adjustments, contingencies, or other contract terms before finalizing the purchase agreement.

Step 8: **Closing Preparations**

Prepare for the closing process by ensuring all due diligence findings are addressed, finalizing financing, and coordinating with a real estate attorney to review and complete the necessary closing documents.

General Notes

Timeframe

Due diligence should be completed within an agreed-upon timeframe, often specified in the purchase agreement. This is typically 30 to 90 days, depending on the complexity of the transaction.

Team Assembly

Consider forming a due diligence team that includes a real estate attorney, an accountant, a commercial realtor, and potentially other professionals like an environmental consultant.

Risk Management

Use the due diligence process to identify potential risks associated with the property purchase and decide on the best strategies to mitigate these risks.