

Multifamily Property Due Diligence Checklist (Request for Seller Documents)

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Due Diligence Checklist

Most due diligence checklists out there in the market are extensive and contain a vast list of items you might request from a prospective seller of an apartment complex. The lists are almost a caricature of themselves. I mean, they have so many items that a seller and/or a broker will look at you as if you were nuts if you asked for everything on the list.

You will find two lists here. The first list is the stuff you should always request copies of (and in most cases expect to get). The second list contains items you'll want to ask for, but you may not always get copies from the seller — sometimes the seller doesn't have copies and/or they might not exist.

Keep in mind some documents will be included in the Commercial Contract to Buy and are mandatory. For example, a request for a copy of evidence of title (owner's title insurance policy) and a property survey are standard inclusions on most commercial contracts. Read your local Contract to Buy and Sell Real Estate and become familiar with all obligations of the seller and the buyer for multifamily transactions.

And note this: You can include a request for any of the following documents in an addendum to your purchase contract, in other words, you can make receiving copies of particular documents a requirement of doing the deal. This can become a part of your inspection contingency meaning the contract is contingent upon your approval of both the physical inspection of the property and your approval of the documents.

Here's the list of due diligence items you should always request (and expect zero push back on):

1. A completed and signed Seller's Property Disclosure.
2. Copies of all leases and rental applications, to include:
 - a. Most recent financial statements and credit information and reports, if any, on any tenant and of any guarantors of any leases or rents.
 - b. Any executed letters of intent with prospective tenants, including lease concessions.
 - c. Leasing status report from the leasing broker, including pending rental applications.
 - d. Include copies of leases for all subsidized tenants and documents relating to any inspections by government agencies.
3. Historical rent delinquency reports.
4. Operating statements (income and expenses) for the previous two years of ownership and current year-to-date operating statements.

5. Certified rent roll showing unit numbers, tenant names, rent rates, security deposit amounts, current rent payment status and lease expiration dates.
6. A schedule of all capital improvements made to the property for the past 2-4 years.
7. Security deposit detail (tenants and pets).
8. All service contracts, manufacturer and service warranties and other written contracts or agreements. A property may have contracted services for: Laundry, pest control, trash hauling, landscaping, snow removal, elevator servicing, cleaning services, window washing, security services, parking lot sweeping, etc. If possible obtain copies of current service contracts and review the following:
 - a. Term of contract.
 - b. Monthly cost for services.
 - c. Work to be performed.
 - d. Termination penalty.
9. As-built surveys showing any improvements to the property.
10. Copies of liens or liabilities on the property that should be known to the buyer prior to closing.
11. Copies of all insurance policies.
12. Copies of all insurance claims in the past 5 years.
13. Lead based paint disclosure.
14. Inventory of all property owned by the seller and a complete list of all inventory to be transferred with the property.
15. Physical inspection of the property (this is not a document — it's just a reminder that you should always request a physical inspection as part of your due diligence).

Here are additional due diligence documents that may be included in your document requests:

1. Names and contact information for all employees including salary information.
2. Copies of all warranties.

3. Copies of last two years' tax bills — including evidence of payment.
4. Copies of all architectural renderings and blueprints.
5. Environmental audits and reports.
6. Soils test reports.
7. Engineering studies including reports on walls, roofs, foundation, supports and floors.
8. Any structural, mechanical, electrical, plumbing, seismographic, HVAC or other property systems replacement, maintenance and/or repairs (including invoices and estimates).
9. Copy of current mortgage, and letter from current lender(s) showing the current balances and terms of the mortgages.
10. Copies of all local utility invoices showing current service.
11. Current operating and capital budgets of the Property, including comparison of actual to budgeted results and an explanation of significant variances.
12. Current aged receivables and payables reports.
13. Reports showing compliance with ADA requirements (Americans with Disabilities Act).
14. Building square footage certification.
15. Recent photographs of the property.
16. Copies of rental unit floor plans.
17. All property licenses and permits.
18. Certification of fire inspections and any other city sanctioned property inspections.
19. Certificates of occupancy for each tenant.

For a **free 30-minute** strategy session on this, or any other element of multifamily investing, contact me at connect@bigfishtopdogs.com.

To your investing success!

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