

A Due Diligence Checklist

Use the following due diligence checklist when you buy rental properties. It should keep you from having any day-after-closing surprises.

What is "due diligence?" Simply put, it is investigating the details of a potential investment, so you know what the real numbers are and what you are getting into. You'll often start this process before you even make an offer, but your offer will normally have provisions allowing for you to review (and approve) certain documents and have certain inspections done before you close 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.