



REAL ESTATE INVESTOR'S

Due Diligence Checklist



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Commercial Real Estate

Illinois has a “buyer beware” doctrine for commercial real estate purchases which shifts the burden of discovering latent property defects onto the buyer. For the most part, the seller is not required to disclose known defects that could negatively affect the property’s value. As a result, thorough due diligence prior to closing a sale is paramount.

Physical Due Diligence

- ❑ **Multidisciplinary property inspection:** A commercial property inspection cannot be left to chance. To ensure that you make a sound investment, you should assemble a team of professionals, such as architects, engineers, property managers, brokers, general contractors, site consultants, and anyone else you deem necessary.

Legal Due Diligence

- ❑ **Acquisition documents:** Review and confirm that you are happy with the purchase contract and any acquisition documents, including escrow agreements, corporate authorizations and approvals, and disbursement instructions.
- ❑ **Tenant and lease reviews:** Check any leases to confirm the building’s occupancy. If applicable, confirm and arrange for transfers of tenant security deposits.
- ❑ **Litigation and other legal matters:** The seller should disclose all actual or pending litigation and give you access to the litigation files. Review these carefully to assess the legal risks that come with the property.
- ❑ **Regulatory review:** Ensure that the property is not subject to environmental or other regulatory actions.

Financial Due Diligence

- ❑ **Financials:** Qualified accounting and finance teams should analyze the property’s historical financial performance, capital improvement expenses, maintenance and utility bills, and pro forma projections.
- ❑ **Insurance:** Review existing insurance policies and compare them with quotes from alternative carriers.

Investment Properties

Real estate investment due diligence is residential property due diligence with extra steps. Be sure to read our rental property due diligence checklist together with a due diligence property checklist. These apply whether you are a sole investor or working with one or more other investors as a real estate partnership.

Physical Due Diligence

- Location:** Be aware of external factors that could bring down the value of your investment. Check the area for encroachments or other issues and compare surrounding property values. This is especially important when buying a multifamily home or a property in a shared building.
- Neighbors:** Talk to the neighbors and try to gauge whether they are likely to file unreasonable complaints against your future tenants or engage in other types of antisocial conduct.
- Parking:** Prospective tenants are going to want a property with adequate parking. If your property has only one parking spot – or none at all – that could be a problem.
- Environmental issues:** Be sure to conduct environmental tests such as mold, asbestos, and termite assessments. Mold often hides behind walls, resulting in tenant complaints and costly renovations down the line. You should also look for environmental issues in the local area. Check historical weather data for patterns of floods, tornadoes, hurricanes, wildfires, or drought.

Legal Due Diligence

- Town and municipal rules:** Confirm that your intended use of the property as a rental complies with all relevant town and municipal rules.
- Zoning:** Look into current and planned developments in the area to gauge how secure your investment is. For instance, condos or commercial developments planned nearby may increase competition in the future.
- Easements:** Check whether there are any easements on the property, especially if it is in a multifamily unit.
- HOA rules:** Most condo and apartment units are bound by HOA rules. Some HOAs are very strict about renting units and impose various rules, such as limiting the number of guests allowed at any given time.

Financial Due Diligence

- Landlord insurance:** Compare different providers for landlord insurance to find the best deal.
- Landlord tax deductions:** Review what deductions you may be eligible for if you rent the property.
- Value projection:** Contact various real estate agents or mortgage lenders and request a valuation assessment for the property. An undervalued property puts you in a great position to make a low offer and land a bargain.
- Rental demand:** What is the current rental demand for this property type in the area? Make sure that the demand is high enough to generate a good return on your investment.
- Rent estimate:** Set a rent estimate for prospective tenants based on the property's value, rental rates for comparable properties in the area, rental demand, and your projected expenses.
- Cash flow analysis:** Run a cash flow analysis based on your expenses and expected income from the property.

Questions?

Contact McHenry County Law for a free initial consultation today!



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