



RESIDENTIAL REAL ESTATE

Due Diligence Checklist



SOLD



**McHenry
County Law**

Gottemoller & Associates

Physical Due Diligence

You should inspect both the interior and exterior of the property, including:

- Neighborhood:** Check the property during different times of the day and on different days of the week. This will give you a better idea of the local area. If possible, try to also speak with the neighbors and ask them if there is anything you need to know.
- Environmental conditions:** Research the local weather and microclimate, paying special attention to the amount of sunlight the property gets.
- Land conditions:** These include soils, slopes, drainage, wetlands, and flood plains.
- Structural integrity:** This requires an expert inspection of the building's structural load and any deformations, fractures, or collapsing in the roofing, floors, walls, or other parts of the property.
- The general condition of the property:** Make sure the property is clean, well maintained, and that there are no pending repairs.
- Building systems:** Check that the electrical, heating, HVAC, and plumbing systems are all working properly. If the property is on well and septic, this should also be checked.
- Equipment:** Request an inventory of any furniture, fixtures, appliances and equipment that come with the property and ensure that everything is in good condition.
- Potential hazards:** Is the property at risk of fire, floods, earthquakes, weather events, pests, or hazardous substances? If so, you may want to reevaluate the agreement.
- Encroachments:** If there are any sheds, plants, trees, or other structures encroaching from neighboring properties, get them removed before finalizing the deal.

There is a lot more that goes into physical due diligence, so it is generally best to arrange for a formal property inspection by a licensed professional.



Legal Due Diligence

Legal due diligence entails examining the property's documentation, including:

- Title:** Make sure the seller has a clear title they can transfer to you. To find out the current owner of the property, get a preliminary title report from the title company. You should also make sure to receive a "warranty deed". This legal document will pledge that the seller holds a clear title to the property with no encumbrances, easements, outstanding liens, or mortgages against it.
- Seller disclosures:** Real estate sellers must disclose known facts that materially and adversely affect the property's value and are not readily observable by the buyer. You will get these once you open an escrow on the property.
- Homeowners Association (HOA) documents:** If you are buying a property with an HOA, get a copy of the applicable Declaration of Covenants, Codes, and Restrictions (CC&Rs).
- Regulatory compliance:** Check that the property is compliant with local building and fire and environmental codes, and any other regulations that may apply.
- Property rights:** If the property is in a rural area, check the status of water and mineral rights.
- Crime stats:** Look up local crime rates and the sex offender registry and see if you are comfortable with what you find out.
- Zoning:** Ask the local land and zoning department for the current 10-year plan. You should be aware of potential developments and building plans that may be expected in the future, as these could affect the value of the property.

Financial Due Diligence

Financial due diligence involves verifying financial disclosures provided by the seller and running an in-depth cash flow analysis to see whether the economic benefits of homeownership outweigh the costs, including taxes, insurance, repair and maintenance expenses, and mortgage interest rates.

Things to look into include:

- Financing:** If you are considering taking out a mortgage, shop around for lenders and see how much you could realistically get.
- Insurance:** Property owners insurance is mandatory if you plan to finance the property, so be sure to take that into account as well. You should also request an insurance claim report from the seller's insurer to check if any claims were made on the property.
- Repair and maintenance quotes:** Ask the seller for an estimate of projected repair and maintenance works. This could reduce your purchase price or the closing costs. Alternatively, the seller could agree to cover some or all pending repairs.
- HOA financial statements:** These will confirm that the HOA is properly managed.
- Property appraisal:** Get a formal appraisal by a licensed professional, which will compare the value of the property to that of similar properties in the local area.

Questions?

Contact McHenry County Law for a free initial consultation today!



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