

# Checklist: Before You Buy an Apartment Building or Multifamily Property What Needs to Be Done Before You Submit Your Offer

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Building: \_\_\_\_\_

Submarket Area: \_\_\_\_\_

Property Seller: \_\_\_\_\_

Property Buyer: \_\_\_\_\_

Review Date: \_\_\_\_\_

| Build Your Team                      | Assigned To | Due By | Date Done | Remarks |
|--------------------------------------|-------------|--------|-----------|---------|
| Attorney                             |             |        |           |         |
| Commercial Real Estate Broker        |             |        |           |         |
| Commercial Lender, Bank or Broker    |             |        |           |         |
| Multifamily Property Manager         |             |        |           |         |
| Title Company/Attorney (for closing) |             |        |           |         |
| Multifamily Property Inspectors:     |             |        |           |         |
| Structural Engineer                  |             |        |           |         |
| Certified Property Inspector         |             |        |           |         |
| Roofing Inspector                    |             |        |           |         |
| Insurance Rep                        |             |        |           |         |
| Rehab/Maintenance Team               |             |        |           |         |
| Equity Partners                      |             |        |           |         |
| CPA/Bookkeeper                       |             |        |           |         |
| Service Providers and Vendors        |             |        |           |         |
|                                      |             |        |           |         |

| <b>Property and Market Research</b>                                 | <b>Assigned To</b> | <b>Due By</b> | <b>Date Done</b> | <b>Remarks</b> |
|---|--------------------|---------------|------------------|----------------|
| Visit property and neighborhood at all times of day/night           |                    |               |                  |                |
| Physical walk-through/inspection of exterior                        |                    |               |                  |                |
| Physical walk-through/inspection of common areas                    |                    |               |                  |                |
| Physical walk-through of individual rental units:                   |                    |               |                  |                |
| See as many as possible, even if occupied                           |                    |               |                  |                |
| Insist on seeing at least one of each style                         |                    |               |                  |                |
| Visit with resident manager if possible                             |                    |               |                  |                |
| Visit with current tenant(s) if possible                            |                    |               |                  |                |
| Obtain copies of sold comps   |                    |               |                  |                |
| Obtain documents requested by buyer (see addendum)                  |                    |               |                  |                |
| Complete <a href="#">property operations checklist</a>              |                    |               |                  |                |
| Complete <a href="#">submarket criteria checklist</a>               |                    |               |                  |                |
| Talk to local merchants   |                    |               |                  |                |
| Meet with the local cops or community officer                       |                    |               |                  |                |
| Interview 3 (min.) local property managers:                         |                    |               |                  |                |
| Services and fees   |                    |               |                  |                |
| Market research   |                    |               |                  |                |
| Leasing plan & marketing services                                   |                    |               |                  |                |
| Obtain rent comps:  |                    |               |                  |                |
| Copies from local brokers   |                    |               |                  |                |
| Tour neighboring rental properties                                  |                    |               |                  |                |
| Research <a href="http://www.craigslist.org">www.craigslist.org</a> |                    |               |                  |                |
| <b>Financial Analysis</b>   | <b>Assigned To</b> | <b>Due By</b> | <b>Date Done</b> | <b>Remarks</b> |
| Documents from Broker:  |                    |               |                  |                |
| Offering Memorandum (listing brochure)                              |                    |               |                  |                |
| Documents from Seller:  |                    |               |                  |                |
| Two years (min.) trailing financials                                |                    |               |                  |                |
| Current Rent Roll   |                    |               |                  |                |
| Past Rent Rolls (at least 3 months)                                 |                    |               |                  |                |

| <b>Financial Analysis (cont.)</b>                        | <b>Assigned To</b> | <b>Due By</b> | <b>Date Done</b> | <b>Remarks</b> |
|--|--------------------|---------------|------------------|----------------|
| Prepare Annual Property Operating Data Spreadsheet:      |                    |               |                  |                |
| Acquisition costs and loan fees                          |                    |               |                  |                |
| Annual property income                                   |                    |               |                  |                |
| Annual property expenses                                 |                    |               |                  |                |
| Debt service (mortgage)                                  |                    |               |                  |                |
| Funded reserves  |                    |               |                  |                |
| Free CCIM APOD Analysis Spreadsheet:                     |                    |               |                  |                |
| <a href="http://www.garytharp.com">www.garytharp.com</a> |                    |               |                  |                |
| Prepare Pro Forma Analysis Spreadsheet:                  |                    |               |                  |                |
| Pro forma income   |                    |               |                  |                |
| Pro forma expenses                                       |                    |               |                  |                |
| 5-year analysis assumptions:                             |                    |               |                  |                |
| Estimated vacancy rates                                  |                    |               |                  |                |
| Rent income escalators                                   |                    |               |                  |                |
| Other income escalators                                  |                    |               |                  |                |
| Expense escalators                                       |                    |               |                  |                |
| Taxes:   |                    |               |                  |                |
| Tax considerations for exit strategies                   |                    |               |                  |                |
| Verify property tax payments are current                 |                    |               |                  |                |
| Verify amount and potential increases                    |                    |               |                  |                |
| Utilities:   |                    |               |                  |                |
| Verify current utility usage and costs:                  |                    |               |                  |                |
| Gas  |                    |               |                  |                |
| Electric   |                    |               |                  |                |
| Water  |                    |               |                  |                |
| Sewer  |                    |               |                  |                |
| Trash  |                    |               |                  |                |
| Insurance:   |                    |               |                  |                |
| Shop rates with multiple carriers                        |                    |               |                  |                |

| <b>Acquisition Financing</b>   | <b>Assigned To</b> | <b>Due By</b> | <b>Date Done</b> | <b>Remarks</b> |
|--|--------------------|---------------|------------------|----------------|
| Obtain mortgage broker, or private lender information:                     |                    |               |                  |                |
| Current rates, terms and fees  |                    |               |                  |                |
| Available programs   |                    |               |                  |                |
| Closing requirements and costs   |                    |               |                  |                |
| Rate lock requirements and costs   |                    |               |                  |                |
| Pre-payment penalties  |                    |               |                  |                |
| Replacement/capital reserve requirements                                   |                    |               |                  |                |
| Borrower and Guarantors requirements                                       |                    |               |                  |                |
| Complete Loan Application:   |                    |               |                  |                |
| Must read: <a href="#">How to Prepare for the Loan Application Process</a> |                    |               |                  |                |
| Prepare Real Estate Investor Resume'                                       |                    |               |                  |                |
| Earnest Money:   |                    |               |                  |                |
| Immediate access to funds  |                    |               |                  |                |
| Business check if possible   |                    |               |                  |                |
| Negotiate amount requested   |                    |               |                  |                |
| Entity:  |                    |               |                  |                |
| Set up entity for closing  |                    |               |                  |                |
| Draft Partner Operating Agreement (if needed)                              |                    |               |                  |                |
| Equity Partners:   |                    |               |                  |                |
| Contact potential investors  |                    |               |                  |                |
| Specify participation and capital contribution amounts                     |                    |               |                  |                |
|  |                    |               |                  |                |
| Prepare Contract to Buy (or LOI):  |                    |               |                  |                |
| Include addendum items   |                    |               |                  |                |
| Include seller performance items   |                    |               |                  |                |
| Review performance timeline  |                    |               |                  |                |
|  |                    |               |                  |                |
| Note: Inspections will commence upon entering contract                     |                    |               |                  |                |

## Document/article links:

Property operations checklist:

<http://www.theresabradleybanta.com/multifamily-property-checklist-an-owners-for-guide-operating-apartment-buildings/>

Submarket criteria checklist:

<http://www.theresabradleybanta.com/checklist-researching-real-estate-markets-links-resources/>

How to Prepare for the Loan Application Process:

<http://www.theresabradleybanta.com/how-to-prepare-for-the-multifamily-loan-application-process/>

## Addendum:

### Multifamily Dwelling and/or Apartment Building Due Diligence Checklist

You will find two lists here. The first list includes the documents you should expect to get. The second list contains items you'll want to ask for, but may not always receive—sometimes the seller doesn't have copies and/or they might not exist.

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.

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.