



Multi-Family Property Due Diligence

Don't ever take the Due Diligence step lightly!



CATHY CROWE

OWNER & FOUNDER

ALL STAR COMMERCIAL REALTY

Cathy Crowe has been a licensed Realtor since 1989. She has help hundreds of investor sell and buy properties.

Since 1990, Cathy has worked with investors in single family rehabs, rental properties, and multi-family properties. She started buying houses in 1980 for to wholesale and rehab. Through the years she has wholesaled 1000 plus homes, rehabbed over 300 properties, sold more than 100 notes, and held numerous rental properties. As a realtor she has participated in the sale of over 100 multi-family properties, package deals of single-family houses (2-150) and multiple listings of properties of all sizes and price ranges.

In 2001, Cathy wholesale flipped 243 houses before our national tragedy. In 2002, she started DFWREIN (Dallas Fort Worth Real Estate Investor Network) that taught and over 8000 investors until July 2008 when she sold the company. During those years Cathy had monthly speaker meetings with a vendor fair, held daily classes (M-S), personally coached over 1000 investors, hosted an interactive website, and had a real estate investor center for classes and networking. Cathy had a weekly one-hour radio show, The DFW Real Estate Investment Hour, on KRLD, for over 5 years.

Cathy Crowe is a master networker and built an organization with thousands of investor from 2002-2008. She makes an effort to consistently meet new people and is always trying to make connections. Cathy strives to make the investment world more professional by educating and keeping investors informed.

How to establish agenda and checklist.

- ★ Having an agenda and a checklist can be extremely insightful.
- ★ The purchase of a multi-family property has many details and steps.
- ★ Successful real estate investors always rely on the basic principles to make sure their purchase is what they are expecting.
- ★ When you want to ensure you don't forget anything, use an agenda and a checklist!

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DOCUMENTATION

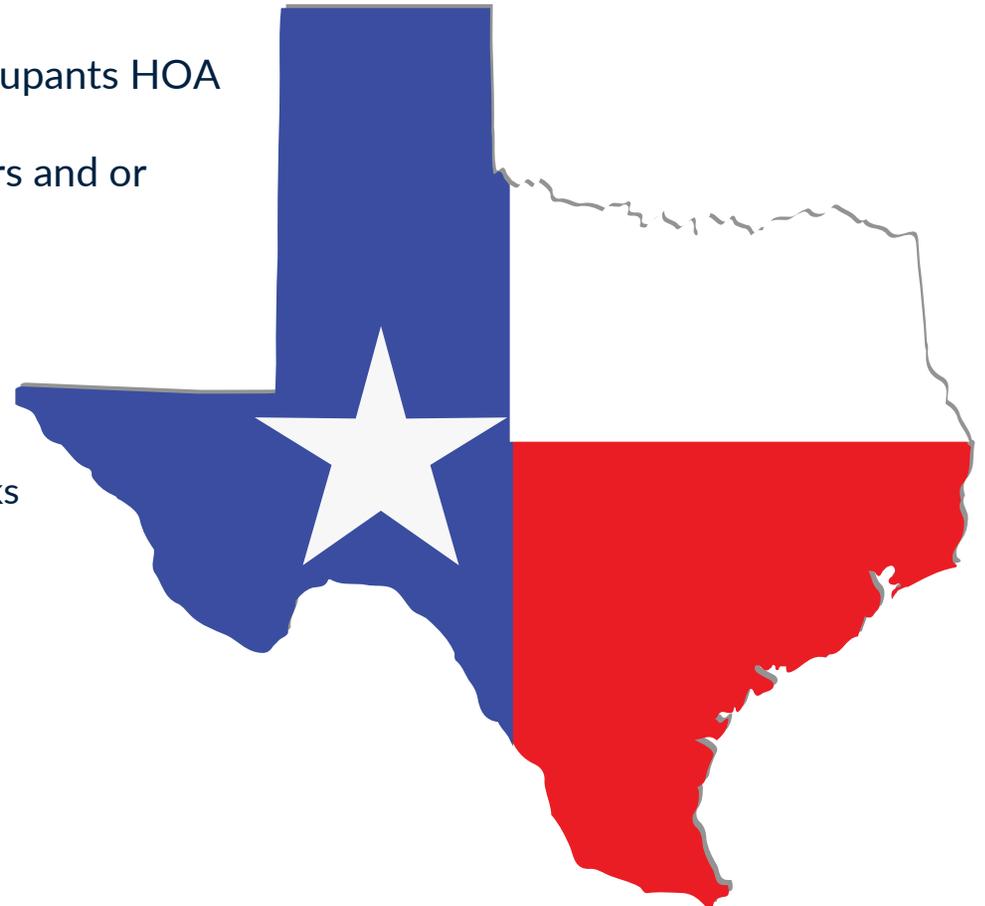
REQUEST FROM SELLER

Sellers Documents to Request

- ★ Current Rent Roll certified by the Seller as true and correct
- ★ Copies of all current leases
- ★ Copies of any mineral leases pertaining to the property
- ★ Copies of Insurance policy
- ★ Copies of tenant insurance policy for personal contents on file
- ★ Inventory of personal property to be conveyed under the contract
- ★ Copies of all notes and deeds of trust that the buyer will be assuming
- ★ Copies of all current service, utility, maintenance and management agreements
- ★ Copies of utility capacity letters from water & sewer provider
- ★ Copies of CAM agreement
- ★ Copies of all Utilities for the past 24 months
- ★ Copies of all warranties and guarantees
- ★ Copies of Real and Personal Property Tax Statements
- ★ Copies of leasing and commission agreements
- ★ Copies of as-built plans & specifications of the property
- ★ Copies of Environmental Assessments and geotechnical studies
- ★ Copies of Survey, Plat and Building Measurements
- ★ Profit and Loss (P&L) Statements
- ★ Supporting documents (Bank Statements, Tax Returns)

Sellers Documents to Request

- ★ List of Capital Improvements (including amount spent)
- ★ List of Insurance Claims (Loss Run Report)
- ★ Copies of recent inspection reports
- ★ City Permits, Pool permits, and the Certificate of Occupancy
- ★ List of Code Violations or other citations from the City
- ★ Proposed Zoning changes or other notices from Governmental Agencies
- ★ Any Police reports on the Property or on its Occupants HOA or POA Invoices and Bylaws.
- ★ Contact information Invoices for all major Repairs and or Remediations:
 - ★ Roof and Roof Leaks
 - ★ Foundation
 - ★ HVAC, Boiler Systems
 - ★ Water Heaters
 - ★ Plumbing Issues including Previous Water Leaks
 - ★ Fire Sprinkler System
 - ★ Electrical
 - ★ Termite and Other Pest Issues
 - ★ Mold or Asbestos remediation



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AGENDA

DUE DILIGENCE

Due Diligence Agenda

Contract & Critical Dates

Time is of the essence! Make sure you understand the critical dates in the contract.

Deliver Earnest Money and Option Fees within the stipulated time.

Schedule Inspections as soon as possible.

Review Title Commitment, Survey and UCC search and object in a timely manner.

Submit Repair Amendment timely.

Reevaluate Price and or Terms based on your findings during due diligence.

Financing of Your Property

Shop for lender with regards to rate and terms

Decide which lender you are going to go with

Obtain a Rate and Term Commitment from lender

Apply for Loan and Lock in your rates early.

Provide all documents requested by the lender in a timely manner.

Schedule any inspections by the lender.

Order and pay for appraisal as soon as feasibility is done.

Review all Loan Documents early

Financial Analysis

Review P&L thoroughly line by line. Look for opportunities to improve.

Look for any anomalies or outliers. Verify with seller anything that looks out of the ordinary.

Make any necessary adjustments.

Create your own proforma based on past operations and how you intend to operate the property.

Create budget for the operations.

Assume some of your expenses will go up when property is sold (ex: Real estate taxes).

Due Diligence Agenda



Conduct thorough market rent survey. Analyze what is motivating rents in the area.

Demographic Analysis: Is the demographics consistent with your business plan.

Access (Ingress and Egress to the Property).

Access to Public Transportation.

Access to schools and education opportunities

Access to grocery shopping and general shopping and services

Is the neighborhood improving?

Is there other development activity in the area?

Conduct competitive analysis: Visit all competitive properties. How does their units and amenities compare to yours?

What is the maximum rent you can charge?

Is your planned rehab consistent with the market?

Have an attorney review title commitment and exceptions on title.

Understand all restrictive covenants on the deed.

Review HOA bylaws and any prohibited uses.

Get additional endorsements on Title Insurance if needed

Check and remove any UCC filings placed on the property

Make sure there are no Liens on the property.

Examine Survey and Get additional Survey coverage if needed.

Check if Roll-back taxes are applicable

Review tax prorations for current year

Check with the city and or county about any proposed zoning changes.

Form new LLC or other legal entity that will take ownership of the property.

Execute amendment to assign property to new entity

Audit all leases thoroughly and create lease abstracts for quick reference.

All Commercial tenants must sign original Estoppel certificates prior to closing.

Review all Security Deposits. Ensure it is accounted for in the closing statements.

Ensure Prorated Rents are accounted for in the closing statement

Review all new leases, renewals or changes since contract date

Ensure there are no material changes to tenants or leases prior to closing

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PROPERTY SITE
& OPERATIONS

DUE DILIGENCE

PROPERTY DUE DILIGENCE

- Identify any safety issues (trip hazards, damaged steps, loose railings etc.).
- Inspect Roof
- Inspect Foundation.
- Inspect Siding
- Inspect Paint
- Inspect loose Bricks or Mortar

EXTERIOR INSPECTION

- Inspect Parking Area.
- Inspect Sidewalk, Fences, Gates, Drainage, Grading,
- Dumpster Enclosure.
- Inspect Irrigation Systems.
- Inspect Swimming Pool and Playground Equipment.

EXTERIOR INSPECTION

- Identify any safety issues (loose carpets, exposed electricals etc.).
- Inspect Flooring
- Inspect Walls and Ceiling
- Inspect Doors and Windows.
- Inspect Electrical
- Panel, Outlets, Switches
- Inspect Fans and Light Fixtures.
- Inspect HVAC Equipment, Boilers, Air Vents,

INTERIOR INSPECTION

- Inspect Water Heater Boiler
- Inspect Toilets, Faucets, Shower and Tub.
- Inspect Cabinets and countertops.
- Inspect Stove, Refrigerator, Dishwasher, Disposal, Washer, Dryer, Microwave and other appliances.
- Look for Signs for previous water damage.

INTERIOR INSPECTION

- Inspect Clubroom
- Inspect Laundry Room
- Inspect Storage Rooms
- Inspect Office
- Inspect Parking lot lighting
- Inspect Hallway lighting
- Inspect Sidewalks and Pathways
- Inspect Fire Riser.
- Inspect Elevators

COMMON AREAS INSPECTION

OPERATIONS DUE DILIGENCE

- Decide if you are going to retain the current property manager.
- Interview alternate management companies.
- Shop for better utility and service providers.
- Shop for Insurance early.
- Decide which services & utilities you are going to continue.
- Give notice to management, utilities and vendors you plan to terminate.

PROCESSES & PROCEDURES

- Prepare notice to tenants about change in ownership and where to pay rents.
- Establish your property take-over plan and procedures.
- Establish bank accounts.
- Establish all systems needed to operate the property.
- Establish Operating and Capital expense budget.
- Finalize your business plan for operating the property

PROCESSES & PROCEDURES

- Never pay for potential. Your offer should be based on current actual NOI. If you can increase the NOI through your work, then you should be rewarded, not the Seller.
- Always check the city ordinances and zoning. Check to make sure there is no code compliance issues.
- Check with the police about reputation of property (crime factor)

CONSIDERATIONS AND REFLECTIONS

- Ask for previous capital improvements and put together a capital expense budget.
- Make sure you have an enough funds in reserves should something unexpected happens.
- Validate. Validate. Validate. Make sure your assumptions are reasonable and can be achieved.

CONSIDERATIONS AND REFLECTIONS

- Know your numbers, but don't do analysis-paralysis.
- Know your strategy and go / no-go decision criteria.
- Have multiple exit strategies when possible; Buy-Operate-Sell, Buy-Operate-Refinance-Hold, 1031 Exchange etc.
- Beware of Market Bubbles

CONSIDERATIONS AND REFLECTIONS

COMMERCIAL REAL ESTATE & BROKERAGE SERVICES

Our mission is to generate, maintain, and maximize the profitability of our clients' multifamily investments or portfolios.

All Star Commercial Realty associates provide the highest level of service to multifamily owners and investors with superior market knowledge and analysis of market trends. Cathy and her team have expertise in sales, acquisitions, finance, and valuation, which extends to conventional apartments, new developments, and portfolios of residential income properties.

Whether you are selling a single asset or a portfolio of properties, our team will provide you with unparalleled market information, brokerage advisory, acquisition, disposition, and financial guidance to help you achieve the highest level of results. If expanding your portfolio is the objective, our local experts can help you identify and acquire properties which meet or exceed your investment goals.

We have customized a systematic and integrated marketing strategy for the disposition of each property in a timely and effective manner. We have spent decades honing our skill sets and building relationships to effectively and efficiently reach the right buyers and maximize a property's residual potential.

CONFIDENTIALITY & DISCLAIMER

All materials and information received or derived from All Star Commercial Realty its directors, officers, agents, advisors, affiliates and/or any third party sources are provided without representation or warranty as to completeness, veracity, or accuracy, condition of the property, compliance or lack of compliance with applicable governmental requirements, deliverability or suitability, financial performance of the property, projected financial performance of the property for any party's intended use or any and all other matters. Neither All Star Commercial Realty its directors, officers, agents, advisors, or affiliates makes any representation or warranty, express or implied, as to accuracy or completeness of any materials or information provided, derived, or received. Materials and information from any source, whether written or verbal, that may be furnished for review are not a substitute for a party's active conduct of its own due diligence to determine these and other matters of significance to such party. All Star Commercial Realty will not investigate or verify any such matters or conduct due diligence for a party unless otherwise agreed in writing.

EACH PARTY SHALL CONDUCT ITS OWN INDEPENDENT INVESTIGATION AND DUE DILIGENCE.

Any party contemplating or under contract or in escrow for a transaction is urged to verify all information and to conduct their own inspections and investigations including through appropriate third-party independent professionals selected by such party. All financial data should be verified by the party including by obtaining and reading applicable documents and reports and consulting appropriate independent professionals. All Star Commercial Realty makes no warranties and/or representations regarding the veracity, completeness, or relevance of any financial data or assumptions. All Star Commercial Realty does not serve as a financial advisor to any party regarding any proposed transaction. All data and assumptions regarding financial performance, including that used for financial modeling purposes, may differ from actual data or performance. Any estimates of market rents and/or projected rents that may be provided to a party do not necessarily mean that rents can be established at or increased to that level. Parties must evaluate any applicable contractual and governmental limitations as well as market conditions, vacancy factors and other issues in order to determine rents from or for the property. Legal questions should be discussed by the party with an attorney. Tax questions should be discussed by the party with a certified public accountant or tax attorney. Title questions should be discussed by the party with a title officer or attorney. Questions regarding the condition of the property and whether the property complies with applicable governmental requirements should be discussed by the party with appropriate engineers, architects, contractors, other consultants and governmental agencies. All properties and services are marketed by All Star Commercial Realty in compliance with all applicable fair housing and equal opportunity laws.

IMPORTANT INFORMATION

Real Estate investing has large potential for rewards and profits. But Real Estate investing has large potential for risk and loss. You must be aware of these risks and be willing to accept these risks to invest in real estate. Do not trade with money you can't afford to lose. No representation is being made by ALL STAR COMMERCIAL REALTY, CATHY CROWE, AND ANY OF THEIR AFFILIATES OR REPRESENTATIVES that properties, resources, or opinions mentioned in this eBook or their public websites, will or is likely to achieve profits or losses similar to those shown or evaluations generated by this eBook or websites.





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