When does a Buyer of INVESTMENT PROPERTY engage in due diligence, and what costs should we budget?

Quality investment products move quickly, so it is best to make offers fairly early. The offer should be based on what we have been told by the seller, and on what we know on the property age, location and the local market.

In the real estate investment world, we live and die by the old Russian proverb **"trust, but verify"**. Once the offer is accepted, we are in a race with time to verify what we believe to be true - it is time to learn everything we can about the property.

From my experience in property sales and after talking to several specialists I've put together a list of suggested and some required inspections. For illustration purposes I am using the related costs to inspect a ten-unit apartment building in average condition.

Property inspection report ($2000-$2500).
Inspect every unit of the property, inside and out! The inspection is insurance and can be used as a bargaining chip if you find anything significant. The inspection report should include the following: Pictures. A review of each units' kitchen, bath, systems and condition. Details about the key building components and systems, including foundation, electrical, plumbing, sewer and roof. A rough estimate of how much money would be needed over the next few years to correct any deferred maintenance.

Phase 1 environmental report ($1500-$1800) – many lenders will require the Phase 1, whether it is required or not, it is good to have. When the property passes the phase 1, or subsequent phase 2, the buyer will have limited their environmental liability.

ALTA Survey ($2000-$3000) – title insurance and the lender sometimes require a detailed survey that will show the property boundaries, structures and easements.

Termite and Rot Inspection Report ($65/unit)
Ideally this will be done by the seller before marketing the property for sale. It is best to know early as most wood frame buildings will have some termite infestation. Most reports will have a $ amount with each suggested repair. Some infestation will require local treatment, and few involve tenting. Wet and Dry rot are also part of the inspection and occur most frequently in kitchens, baths and standing water.

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Appraisal ($1500-$1700) – during a sale, the lender will require a certified appraisal in order to validate their loan collateral.

Mold Inspection ($750-950/unit) – mold can be a scary thing. If there is any suggestion that there is mold, it is a good idea to find it and treat it asap.

Lead and Asbestos testing ($600-$900/unit) - Also here, if there is any suggestion that you have exposed lead or asbestos, it is a good idea to find it and treat it asap.

Radon testing ($35-$45 per can). Radon is a radioactive gas that occurs naturally in the earth's crust and off-gasses into the environment. Long-term exposure to high levels of radon is deadly as it is an invisible carcinogen. Relatively inexpensive to test.

Lease Audits ($30/lease). Most rent rolls do not match the actual leases. Depending on the number of leases and your familiarity with the lease form, you could have the leases audited.

P.S. If you have had an interesting experience in the due diligence process, or other topics you'd find useful in these emails, I'd love to hear about it! Just shoot a message to my email below.

Testimonial
"When my largest long-standing office tenant relocated to the City Ces assisted me to reconfigure the building to meet the current local office market demand.   He leased the offices to strong qualified tenants and subsequently SOLD the fully leased building. Ces has earned my business, and now represents me leasing and selling my multiple commercial properties."
Maurizio R., commercial property owner

What do I do?
My primary focus is in commercial real estate investment sales and leasing in the San Francisco bay area. I am inquisitive, analytical and strategic, I enjoy learning about your CRE goals, and helping you develop and implement your strategic plan. My clients enjoy working with me because I am competent and realistic; and I communicate frequently and openly.

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