13 Items to Check When Performing Due Diligence on Multifamily Properties

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It is worthwhile to uncover these important due diligence points prior to purchasing a multifamily property.

hese are the most common items to focus on. Depending on the deal, you will want to check into other elements outside the items listed too!

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12-Month Property Operating Statement (T-12)

Don’t be fooled by what the numbers look like today or what they could look like tomorrow. The best predictor of future performance is the track record of how the property has performed in the past. This can also highlight seasonal fluctuations that you may miss, especially if buying in a new area.

Rent Roll

A rent roll is an account or schedule of rents, the amount due from each tenant, and the total received. Generally, you will find information in the rent roll on how long the tenant’s lease duration is. Ensure this matches the actual leases.

Real Estate Tax Bills

Checking property tax data can tell you a lot about a property. Check the status of current and prior year’s bills. The date they were paid can give you some insight to the motivation of a seller. Some county appraiser websites may also provide calculators to help you better gauge how much bills may go up after your acquisition.

Leases

Obtain copies of leases and ensure everything is in line with expectations. You want to make sure there is no free rent for some tenants at the back of lease and no leases that leave you seriously exposed as a landlord.

Services

What services might tenants have been promised in their leases that you have to live up to? For example, do you have to provide laundry appliances or internet? Are there leases on equipment or service contracts in place that you need to address, cut, or renegotiate?

Unit Inspections

A physical inspection of each individual unit should be done, along with common areas, utilities, and the exterior. You don’t have to personally do it, and it may not be worth your time if there are a lot of similar units. Yet, someone needs to do it, preferably a professional inspector, and clearly report on the condition and any issues.

Contractor Quotes

Don’t guess how much repairs and improvements will be, even if you have done similar work in the past. Obtain multiple quotes for large expensive items, and put together a scope of work for all improvements.

Market Analysis

Make sure you know the market. Commercial real estate investors tend to work with a much larger map than single family home investors. Make sure you know the micro and macro economics relating to a market. Ensure population and jobs are growing, crime is low, and the unemployment rate is below the national average. It’s also worth checking the diversity and strength of the local industry. Is it well-rounded or heavily reliant on one industry or employer—and could that industry or employer be in jeopardy?

Competitor Analysis

Check your rental competition. How does this property stack up to others close by in terms of quality, rents, special offers, services and amenities management, and customer service? How will that impact your ability to keep and attract tenants?

Environmental (Phase 1)

If you plan to use financing—or ever hope to be able to refinance or sell to a buyer who needs financing—you’ll want an environmental report done. Lenders will require it. These aren’t always cheap or fast, so get it scheduled ASAP.

Demographics

Who are your tenants? Who will your tenants be for the next five to 10 years? What about shorter and longer than that? This can be used to double check viability and performance predictions, as well as help to hone your marketing and leasing efforts.

Pending Litigation

Be sure to check for any pending litigation. It can be quite common, even in relatively new buildings. Are there any pending lawsuits? What are the complaints? Are there structural issues? A bad management track record? Who will be on the hook for any compensation or judgements? How might litigation impact the ability to buy and close on the property?

Delinquencies

Are rents on time? How many units are in arrears? Are there balances due? What about collections? Verify these amounts, or you could be off to a challenging start.