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Apartment Building Due Diligence Checklist

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What to verify between contract and closing on a small apartment building, grouped by who you need to get it from. Built for a 5 to 50 unit purchase; most of it applies to a duplex too.

Financial records (from the seller)

- [ ] T-12 and the two prior calendar years of operating statements
- [ ] Rent roll at contract and again within a week of closing
- [ ] Bank statements or deposit ledger for the same 12 months
  Collections on the T-12 should tie to deposits.
- [ ] Utility bills for 12 months, every meter the owner pays
- [ ] Property tax bills for two years and any pending appeal
- [ ] Service contracts: laundry, trash, landscaping, elevator, pest, fire monitoring
  Check term, assignability and termination fees. Laundry leases are the usual surprise.
- [ ] Accounts-receivable aging by tenant
- [ ] List of capital expenditures for three to five years with invoices

Leases and tenants

- [ ] Every lease, amendment and renewal, compared to the rent roll line by line
- [ ] Security deposit ledger, and how the jurisdiction requires deposits to be held
- [ ] Tenant estoppel certificates where you can get them
- [ ] Housing-assistance contracts for any subsidized tenants
- [ ] Notices served and eviction cases filed in the last 12 months
- [ ] Concessions and free-rent periods still running
- [ ] Local rent regulation: registration, allowable increases, just-cause rules
  Confirm with local counsel. These rules change the rent growth you can underwrite.

The physical building

- [ ] Walk every unit. All of them.
- [ ] Roof: age, type, remaining life, any active leaks
- [ ] Heating plant and domestic hot water: age, fuel, service history
- [ ] Electrical: service size, panel brand, any aluminum branch wiring or knob-and-tube
- [ ] Plumbing: supply and drain material, sewer scope on older buildings
- [ ] Foundation, masonry, porches, stairs and fire escapes
- [ ] Windows, exterior doors and common-area finishes
- [ ] Life safety: smoke and CO detectors, extinguishers, egress, sprinkler or alarm certificates
- [ ] Environmental: lead-based paint disclosure for pre-1978 buildings, asbestos, oil tanks, radon, mold
- [ ] Unit-by-unit turn estimate and a building capital budget

Title, zoning and legal

- [ ] Title commitment and every exception document
- [ ] Survey, or the title company's survey requirements
- [ ] Zoning confirmation that the unit count is legal
  An illegal fifth or third unit is an underwriting problem and an insurance problem.
- [ ] Certificate of occupancy or rental license and the last inspection report
- [ ] Open permits and code violations
- [ ] Pending or threatened litigation

Insurance and taxes

- [ ] Bindable insurance quote at replacement cost, with rent-loss coverage
- [ ] Seller's loss runs for three to five years
- [ ] Flood zone determination
- [ ] Estimated property tax after the sale
  In many jurisdictions a sale triggers reassessment. Underwrite the new bill, not the seller's.

The loan

- [ ] Lender NOI built from the rent roll and T-12, not the broker's pro forma
- [ ] DSCR and LTV tested at the rate and structure on the term sheet
- [ ] Reserves and cash to close confirmed against statements
- [ ] Appraisal ordered early; on 5+ units it is a commercial report and takes longer

Legal, zoning, environmental and rent-regulation questions are for a licensed professional in the building's jurisdiction. This list tells you what to ask; it does not answer it.

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