



Neal
Bawa

DUE DILIGENCE AND REHAB BUDGETS

Let's get Physical – both before and after buying the property



Multifamily University

WHAT IS DUE DILIGENCE



It's the process of doing financial and physical inspections of the property to understand the property condition and determine the internal and external rehab budget. It is conducted both before and after making an offer.

Due diligence is always conducted in partnership with a local property manager. This is usually the same property manager that went in with you to walk the property during the offer stage. Having a PM that knows the area, property type and typical rehab levels is critical to your success

Age of the property affects everything. The Due diligence for a property built in the late 80s is a lot simpler than a property built in the 60s and 70s

PHYSICAL DUE DILIGENCE



The PM and you will walk through every single unit at the property. The PM comes ready with a checklist that is used to determine the condition of each unit and build a rehab budget. Each unit's key areas are graded, with kitchen being the biggest focus

Key common areas to walk are roofs, parking areas, pools, clubhouse, laundry rooms, gyms, boiler rooms, chiller rooms, HVAC units etc. it's also important to walk the 'drive-in to clubhouse' so you can see issues with tree trimming, road surfaces, broken blinds. Also walk around the entire property.

Roofs and HVAC are really important elements. Make sure that your PM is bringing in specialists for those. For properties in the 60's and 70's, you also need a plumbing specialist and a foundation specialist.

COST AND TIME FOR PHYSICAL DUE DILIGENCE

A lot of property managers will not charge you for physical due diligence if you go with them, should you win your bid. Others will charge \$20 to \$35 per unit, which is a reasonable fee.

Rule of thumb is that every 100-120 units takes a day. So one day for a property of that size, two days for a property up to 240 units, and 3 days for a property that is larger.

Never accept a reason to not enter a unit. E.g. keys are missing or tenant did not want us to enter. Always schedule the PM to come back. Generally, those are the units with big damage – mold, water damage (or they have 3 ferocious pitbulls in there).

BEST PRACTICES OF PHYSICAL DUE DILIGENCE



Read the property's reviews on Google, Yelp and Apartment.com. Do they suffer from cockroaches? Bedbugs? Is the water shut off often (all buildings have a single shut off – big issue). Do roofs leak? Is there condensation during wet weather?

There are now iPad apps such as INSPECTOR. These allow you to take pictures of units as you go, and allow you to quickly add unit numbers and tap subcategories such as Kitchen Cabinet to rank the condition. Highly recommended.

Always walk at least 5 properties in a one-mile radius to understand their level of rehab. Over-rehabbing and under-rehabbing are two very common problems that should be avoided.

TYPICAL EXTERNAL REHAB AREAS TO FOCUS ON



Best bang for the buck for external rehab comes from painting, repaving parking lots, installing LED lighting, upgrading clubhouses and pool areas, building dog runs

Allocate money for Roofing and HVAC upgrades and plumbing fixes. These are inevitable costs. Note that the bank will force you to keep a Capex budget per unit per year, so some of the Capex can come from that budget.

Tree trimming, security cameras, property fencing and monument signs are other good upgrades with both functional and aesthetic benefits.

QUESTIONS ON THIS MODULE?



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