

Due Diligence: What Does That Mean in Real Estate Deals?

Article By:

Business Real Estate and Transactions Practice Group

Today, it is generally recommended that buyers do a thorough investigation of the property before they are committed to buy. This reduces the risk the buyer will be disappointed and increases the chances the seller will get what they most want besides a good price—a clean break from the property and the buyer at closing. What follows are items learned from hundreds of transactions.

Residential Sales

- Almost always, the seller will not be responsible for problems the buyer doesn't discover. The reasons vary with the cases, but this is the most common outcome.
- Almost always, buyers choose to do less due diligence than they could. Few take responsibility for this decision.
- Almost always, buyers should conduct a neighborhood review re: school quality, how the look and use of the neighborhood might change in the future, the location of registered sex offenders, frequency and number of burglaries and other crimes, etc.
- Video inspections of sewer lines can discover expensive problems cheaply.
- Large families moving in to homes that have been vacant, or inhabited by one or two people, can often find problems the seller never had with plumbing, septic and other systems.
- Buyers contemplating remodeling or construction should consider a feasibility study period that is long enough for them to get some comfort with what can be built and what it might cost.
- Most buyers choose not to do a full feasibility study because it's more work than they are up to doing at the time.
- Too many buyers believe that, if they're unhappy, someone will make it right. I call this the **McNordstrom Mentality**. In real property deals, this is a fantasy usually built on past retail experiences involving shoes or snow tires.
- Review of covenants, including those of homeowner associations can be critical if a buyer wants to operate a business from the home, park trade or recreational vehicles, have a lot of pets, perform some remodeling or add antennae and dishes for radio, TV and other equipment. Once reviewed, the buyer should learn to what extent the neighbors adhere to the covenants.
- A view property may command a premium price, but the view could be lost to future construction or plantings. Views can be protected by covenants, easements and building codes—all of which are available to prospective buyers.

Commercial Real Property – Sales and Leasing

- Interviewing tenants, neighbors and employees can be greatly informative, though it often is impractical.
- Buyers and tenants are often surprised that the property's utilities or HVAC must be upgraded for their use.
- Permits for tenant improvements can be conditioned on upgrading an entire building's fire or other systems.
- Buyers/tenants would be better off if their signage plans are approved by the city, landlord, etc. before they are committed to the deal.
- The cost and availability of insurance should be investigated. The claims history of the seller/landlord or the previous tenants may have some effect.

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