

## Due Diligence

### Our Due Diligence service includes:

- Market study of rental rates and concessions in the property's sub-market taking into consideration amenities, unit sizes, asset quality, age, and location.
- New inventory in the development pipeline.
- Recent sales of comparable properties.
- Lease audit and confirmation of rent roll with specific emphasis on issues such as: income level and credit rating of existing residents, concession given at move-in, on-going concessions and any other future incentives, lease expiration matrix, length of residency matrix, number of pets, etc.
- Inspection of unit interiors by personnel of the client's fee management company. The inspectors are individuals who are experienced with resident expectations in properties comparable to the subject property. It is unwise to have an individual attuned to an "A" property inspect a "C" property, and vice versa. The estimate of capital requirements such as carpets would be skewed in either event. The inspection of the unit interiors includes a cost estimate to repair the deficiencies found in the units.
- Pricing of renovation program. Our recommended rental rates are tied directly to our assumption of property condition and future enhancements. Our client will clearly understand the additional investment required to obtain our projected rent levels. For example, washers and dryers, security gates, or a fitness center will increase rental rates, but the cost of improvements to achieve the increase in rates must be kept in mind when evaluating yield expectations.
- Appropriate third-party reports addressing subjects such as: roof condition, natural gas distribution system, structural engineering, environmental assessment Phase I (including testing for asbestos and mold), fire sprinkler system, polybutylene pipe, drywells, landscape sprinkler system, etc.
- Exterior property amenity review and estimate of cost to repair and/or upgrade.
- Frequent updating of our five page underwriting as new information becomes available during the due diligence process.

This work is completed with the close assistance of the client's third-party management company. We can meet a twenty-five to thirty-day due diligence contingency. We schedule the sequence of the work so that the cash outlay to our client is limited. Third-party reports are not ordered until the lease audit and the unit interior inspections are completed and summarized. Our intent is to limit our client's exposure to third-party costs until the relatively inexpensive due diligence is completed. If the deal dies due to issues uncovered in the lease audit or unit interior inspection, our client is not out of pocket for third-party reports which were not required.

We have found it is critical to the due diligence process that the client's third-party management company be included to the fullest extent possible. Their experience is helpful, but just as important, their operating budget will be realistic and not include a significant amount of "Blue Sky" because they know they will have to produce the net operating income after close of escrow.

**The phrases, "Caveat Emptor" and "Buying As-Is, Where-Is", sum up the value of our services as a Buyer's Representative.**