

15 Things To Consider Before Closing A Real Estate Transaction



Forbes Real Estate Council CommunityVoice
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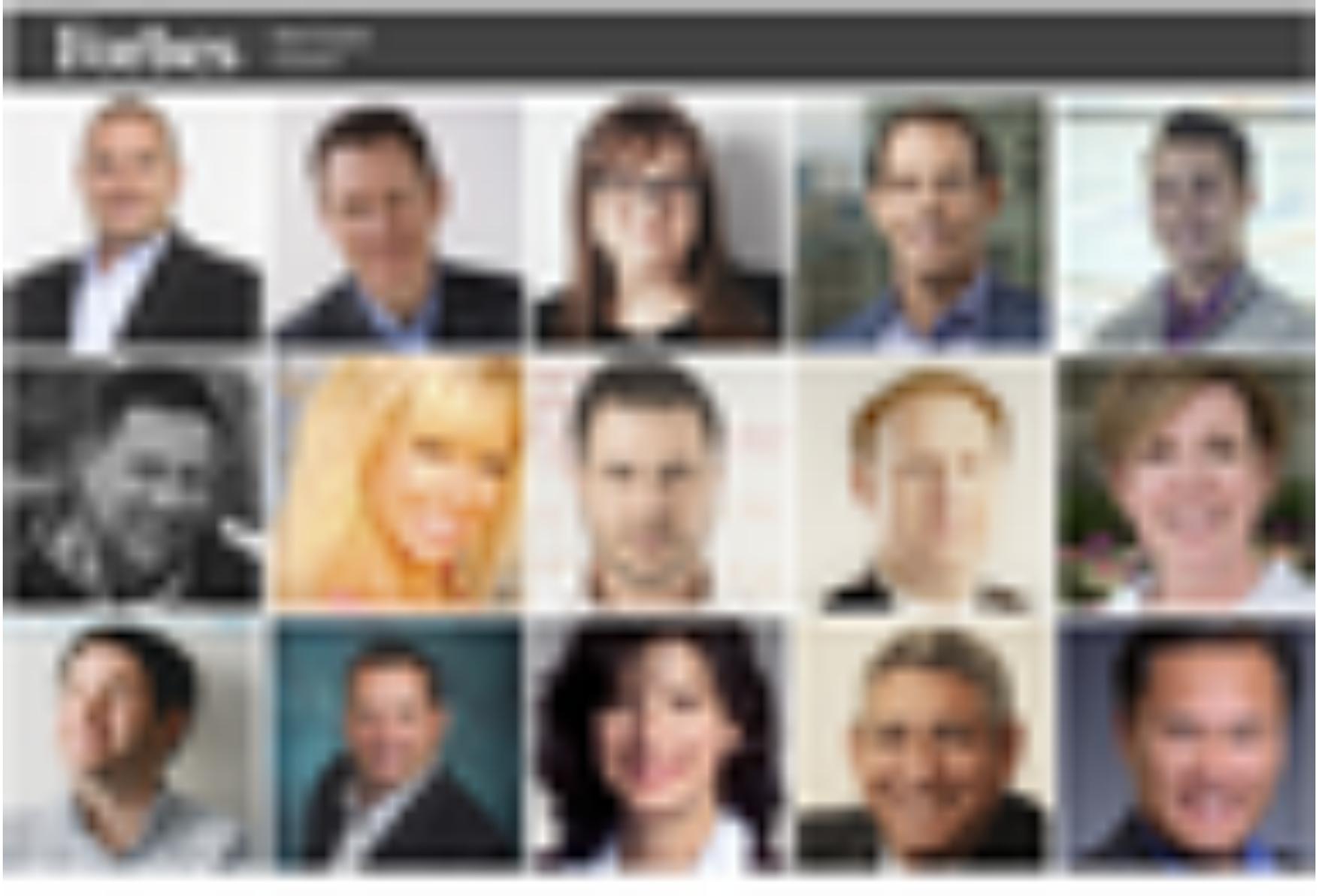


Successful executives in the real estate industry from [Forbes Real Estate Council](#) share firsthand tips & insights.

Low inventory and an abundance of buyers looking to secure the home of their dreams are creating a real estate market buzz that hasn't been seen in a while, with homes selling for well over asking price. But, what does this mean for real estate investors?

With 89% of investors putting their money into real estate, according to a report by [Better Homes and Gardens Real Estate](#), being at the mercy of this year's high market prices can affect an investor's ability to recoup on a property investment. While paying too much for a property can be damaging to an investment, it is only one of the issues that can arise if careful measures are not taken when closing on the latest addition to your real estate portfolio.

Fifteen members of [Forbes Real Estate Council](#) share some of the things real estate investors commonly overlook before closing on a property that can mean bad news down the road. Here's what you can do differently:



Fifteen council members weigh in. ALL PHOTOS COURTESY OF FORBES COUNCILS MEMBERS.

1. Financial Statements

For newer investors evaluating deals, always request to see the properties' financial statements. Pour over the expenses of a property until you thoroughly understand what you are looking at. If the home was professionally managed, financial statements should be readily available. Self-managing landlords will likely not have thorough statements, in which case you will need to estimate. -

[Timothy VandenToorn, United Properties of West Michigan](#)

2. Taxes

Where will taxes stabilize after a purchase? No one can give you a definitive answer of what taxes will be three, five or 10 years down the road, but always engage a real estate tax professional to best prepare for what will likely happen to property taxes in the years to come, especially since this is most likely the largest line item in your operating expense. - [Lee Kiser, Kiser Group](#)

3. Appeal To Renters

Investors tend to focus on title, repair estimates and getting financing lined up. Long term, though, returns will be driven by the stickiness of the tenant. It always helps to do due diligence on the property like the tenant and focus on school district, access to public transportation and local amenities. Keeping the tenant in place will drive higher returns and keep turnover costs down. - [Beth O'Brien, CoreVest Finance](#)

4. Maintenance Costs

Investors often look at real estate in the same way they would a financial asset. However, a building is a physical asset with a roof, walls and equipment that needs to be maintained. Maintenance costs are often unrepresented in the selling package. Before every purchase, an owner needs to do a thorough physical inspection of each building and include costs to replace potential items when they are forecasting returns. - [Michael Episcopo, Origin Investments](#)

5. Ongoing Carrying Costs

Most investors only calculate purchase and repair costs while overlooking the additional carrying and closing costs. These additional costs can often accumulate to approximately 10-20% of the entire budget, which will decrease the profit margins. Ensure your financial audit of the property includes these. - [Joshua Fraser, Data Nerds](#)

6. Underwriting Tenants Adequately

While many investors underwrite the value of the property correctly, it is very common to do an inadequate job underwriting the tenant if one is already in place. The investor should scrutinize the current tenant with as much diligence as the property itself. Properly accessing payment history, credit score, maintenance requests, etc. can give a true valuation of what an investment property is worth. - [Mike Tamulevich, Marketplace Homes](#)

7. Paid Inspection And Appraisal Reports

Paying a few hundred dollars for both an appraisal and an inspection report will save you money down the road. An inspection report can be submitted to a Home Warranty Company and any items in the home that were functioning during the time of the report may be covered under the home warranty plan. An appraisal report will give you an accurate square footage and appraised value that you can use when you go to sell the property after you have finished your rehab. - [Angela Yaun, Day Realty Group](#)

8. Condition Of The Property

Many investors are too lazy to get eyes on site when they see a great deal via the various online auction platforms. It is extremely important to hire a professional to conduct a brief walkthrough to see if any major items from a structural standpoint need attention. - [Engelo Rumora, List'n Sell Realty](#)

9. HOA Covenants, Conditions And Restrictions

If an investor is looking to remodel a property, homeowner association (HOA) board approvals could be required before work can take place, causing delays in construction and additional carrying costs. Covenants, conditions and restrictions may restrict tenants or have requirements on lease terms, limiting the investor's pool of tenant prospects. - [Brion Crum, Caliber:The Wealth Development Company](#)

10. Variance In Redemption Laws

One thing that can derail an investor's best laid plans is investing in a foreclosed property without advance research of state laws regarding rights of redemption. While some states have no redemption period at all, other states have redemption periods that can extend up to 12 months. Research state law in advance if foreclosure properties are potential additions to the portfolio in order to prevent potentially costly surprises. - [Amy Niesen, Land Title Company of Alabama](#)

11. The Rent Roll

For rental investment properties, investors need to be diligent when evaluating a rent roll. In many cities across the U.S., increased construction over the past five years has resulted in a glut in housing stock, leading to buildings offering concessions in the form of free rent. Understanding how much renters are actually paying — net vs. gross rent — is crucial in evaluating the actual underlying opportunity. - [Anthemios Georgiades, Zumper](#)

12. Strength Of Partnerships

We all know we need great due diligence on prospective investment properties. However the hidden, most dangerous and often overlooked pitfalls are partnerships. How well do you know your partners in the deal? Do they think like you? What do they bring to the table to make the deal profitable? Have clear cut operating agreements and guidelines. - [Thomas Black, Napali Capital](#)

13. Master Land Use Plan

While investors typically confirm property zoning, they rarely obtain the Master Land Use plan for the area. Meeting with the City Planner and building department is an important step toward fully understanding the potential future value for any given property. Consider the factors that could negatively/positively impact future value, e.g., over-saturation (-) or even new developments (+). - [Diane Batayeh, Village Green](#)

14. Emotional Due Diligence

Many people don't look at the market and its psyche enough. Of course everyone must do physical due diligence, but competition and potential market changes can dramatically affect an asset. Neighborhood trends are integral in your plans to market and position an asset, especially if you are doing improvements to reposition. Talk to the local chamber of commerce and any neighborhood groups for key details. - [Eddie Lorin, Impact Housing REIT and Strategic Realty Holdings](#)

15. Estimate Accordingly

Under/overestimating is a huge problem for investors, especially newer investors. Often, investors underestimate repair costs, holding costs, closing costs, etc. They will also overestimate after repair, resale or rent value. Location, function, amenities and market conditions are all variables that affect ROI. Having a clear understanding of these variables is key to better profits. - [Long Doan, REALTY GROUP, INC.](#)

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