A Checklist for Buying or Selling a Multi-Residential Property

First-time investors in multi-residential properties often become astonished and dismayed at the sheer number of variables, considerations, and action items that a serious, informed investor should undertake when purchasing or selling a property.

For the buyer it is *caveat emptor* – let the buyer beware. But for the seller, it’s about not wasting huge amounts of time getting one or more prospects to the due diligence phase of a deal only to have the deal collapse because of surprises.

The list below is by no means complete. There are likely items I have missed or which may be more applicable to a specific type of property, but the list is certainly a good starting place.

Some of these items will be handled by your real estate lawyer but you should be aware of all the issues yourself.

**Personal Finances**

- Own title personally or put into a limited company?
- Establish a family trust (maximize family lifetime capital gains exemptions)?
- Join Apartment Owner, Rental Housing, Multi-residential Investor and/or Property Management association(s)
- Subscribe to relevant periodicals
- Join Landlord’s Self-Help Centre
- Consider using property management software to manage your apartment building operations

**Property Operations**

- Set up accounting books; what accounting software application to use (if doing your books yourself)?
- Chimney sweep?
- Find and set up 30-day payment terms with preferred suppliers:
  - Real estate lawyer
  - Real estate accountant
  - Tax planner
  - Bank(er): keep your building finances separate from personal finances
  - Property manager (24-hr emergency)
  - Handyperson/maintenance (24-hr emergency)
  - Janitorial (who will take out the garbage, clean floors, etc.)?
  - Plumber (24-hr emergency)
  - Electrician (24-hr emergency)
  - Locksmith (24-hr emergency)
A Checklist for Buying or Selling a Multi-Residential Property

- Stone/brick mason
- Coin laundry and other vending machines
- Tenant check/verification services

- **Fire Retrofit**
  - Compliance letter
- **Fire inspection report**
- **Create tenant forms**
  - Rental/Lease Application
  - Rental/Lease Agreement
  - Rules & Regulations for the Property
  - Fire Safety Plan
  - Smoke Alarm Acknowledgement
  - Keys Acknowledgement
  - Floor plans
  - Incoming/Outgoing Inspection Form

- Determine market rent rates for property
- Property Management agreement
- Janitorial agreement
- Snow removal/landscaping contract
- Garbage removal contract (some municipalities won't pick up garbage from buildings with more than a certain number of units)
- Any required retrofits? (eg. fire system up to code? Chimney sweep? Carbon monoxide monitors in fireplace-equipped suites?)
- Are there any additional return on investment opportunities for:
  - Suite metering (sub-metering)? Does every unit have its own utility meter? Are tenants paying their own utility costs?
  - Solar panels?
  - Energy consumption retrofits?
    - toilets and laundry machines that use less water
    - energy-efficient light bulbs throughout
    - in-suite motion sensor thermostats
    - more efficient furnace/heating source
    - Insulate hot water tanks and piping?

**Property Title and Physical State**
- Does any other party have ownership interest in the property
- Zoning? Legal? Legal non-conforming?
- Any applications for re-zoning in the area around the property (what is being built next door)?
- Title insurance
- Survey available? Date of survey? Does it show all improvements & easements?
- Pre-sale Inspection
- Building proximity to:
  - Electricity power corridors (electromagnetic radiation)
  - Noise: airport, railway, industrial, highway, etc.?
- Any known or ought to be known...
  - Encroachments, registered easements or rights-of-way?
  - Restrictive covenants that run with the land (eg. shared driveway)?
  - Liens or encumbrances
  - First rights of refusal
A Checklist for Buying or Selling a Multi-Residential Property

- Tax arrears?
- Drainage issues/restrictions/flooding?
- Insurance claims made by the previous owner in the last 5 years?
- Local levies or unusual taxes being charged at the present time or contemplated?
- Public projects planned for the immediate area; e.g., road widenings, new highways, expropriations, etc.
- Current or pending heritage designations of any kind for the property
- Heritage designation(s)?
- Conservation authority issues?

**Environmental**—obtain warranties from the current owner:
- Warranty regarding environmental impact
  - Warranty that there is no oil tank present anywhere on the property or date tank(s) was removed?
  - Any waste dumps, disposal sites, landfills, chemical, automotive or other environmental threats in the immediate area
- Has the building(s) and addition(s) ever contained any environmentally hazardous substances?
- Current owner received any notice or claim affecting the property from any person or public body
- Any renovations, additions or improvements
  - What records are available -- any final inspection reports and related permits
  - Remaining warranties?
  - Cost of all improvements since acquisition
  - Other repairs made
- Age of furnace (boiler)
- Number of parking spaces
- Is/was there a well or septic
  - Properly removed/closed/filled
- Any structural problems with the building(s) or addition(s)
- Telephone system - existing cabling, switch etc.
- Electrical service (no knobs/tubes)
- Air conditioning system check
- Any deficiencies or noncompliance with the Ontario fire, electrical and building codes?
- Any problems with the HVAC system
- Any moisture or water problems in the basement or crawl space
- Any damage due to wind, fire, water, insects, termites, rodents and/or wood rot
- Any lead or galvanized metal plumbing on the property
- Aluminum wiring?

**Property Financial**
- Capitalization Rate vs Purchase Price justification
- Loan-to-Value Calculations
- Review existing property insurance coverages and replacement value; need building insurance before the sale closes
- Any conditional sales contracts or equipment leases or rentals of any kind? Are they assignable or will they be discharged?
- Value of land versus building/improvements re:
A Checklist for Buying or Selling a Multi-Residential Property

Capital Cost Allowance and depreciation
- Building inspection report
- Building appraisal
- Do all tenants have content insurance? (most probably will not but expect the landlord to cover their losses in the event of disaster)
- Tenant paid interest on last month’s rent (LMR) in full before closing
- Open/transfer accounts with all utility companies

I am a commercial realtor (broker), based in Toronto, Canada focused on multi-residential (rental apartment) buildings.

As an owner/operator I am also intimately aware of the issues, challenges, personal financial and estate planning considerations, rewards, and sense of accomplishment that come from managing the human relationships, business challenges and operational issues of owning a rental property.

I can help you do the same.

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