

ARTICLES

The New Normal in Due Diligence

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Home buying is a complex undertaking and a significant investment with large financial implications. One way to avoid buying a problem property is a thorough pre-closing due-diligence process. Driven by new tools and easily accessible data, a “new normal” in due diligence is emerging for buyers, agents, contractors, and others involved in real estate transactions. More efficient and better able to determine what constitutes a good deal, it’s a process far beyond what was possible in the good ol’ days just ten or fifteen years ago.



Today’s flood of information, however, can make it difficult to determine what to use. Below we look at resources that to make your due diligence process more efficient and productive.

Real Estate Agent/Home Value

Is your local and neighborhood market stable? Are properties increasing in value in the neighborhood? Are new homes being built in the area? Are old homes being razed for new ones? What is the average sales price? Real estate agents love to talk about the market - home values, trends, price-per-square foot, etc., and are a great source for understanding reasonable pricing. If you’re interested in a property ask a real estate agent to perform a Comparative Market Analysis (CMA) on it, comparing your property against others that have recently sold or are currently on the market in the area. Websites with similar market information include www.realtor.com, www.zillow.com, and www.trulia.com.

Home Construction, Defects, Repairs, History

A pre-purchase integrity check - from construction integrity to roof, foundation, electrical issues, plumbing, HVAC and more - is a must. For the general inspection, hire a great inspector. How? Ask friends, realtors, title company people, etc. for referrals. Interview several before making a decision and ask each for a copy of one of his reports and client referrals you can call with questions.

For an obvious problem don’t be afraid to call in a specialist, like a plumber to analyze low water pressure, to get a thorough answer and a good understanding of the issue before moving forward. Always opt for more information when buying a house. Less visible issues, like termites, can also be specified in an inspection report. Always opt for more information.

Since their time on site is limited, even the best inspector can miss lurking issues; exterior drainage, for

instance. Poorly designed exterior drainage has serious structural consequences: too much or too little moisture around the house cause structural movement, create foundation problems, cracked walls, broken pipes and more. Questions to consider on this front when looking over a property include:

- Is the soil under the house dry?
- Does the house perimeter slope away?
- Are there muddy areas on the perimeter of the house?
- Are there existing French drains/sump pumps?
- Is the soil level at least six inches below the top of the foundation?
- How is the sewer drainage in the area?
- Is the house at a low point on the block?
- Could the sewer system become overwhelmed, flooding the property?
- Are you planning to buy flood insurance?

Read more about construction costs here:

www.homeadvisor.com/cost/architects-and-engineers/build-a-house/

Mortgage Lender

Lenders will require a lot of information for a number of financial documents needed to underwrite your loan. While it might seem like a burden, it's actually a good exercise for the buyer. Keep copies of everything you gather for the lender. If you are not approved by one lender then you will have your file ready for another. Engaging a mortgage broker can streamline your loan search. Their personal relationships and local knowledge can save you both time and money. They can explain mortgage rates, loan programs, equity requirements, points, fees, and other important details. They also handle getting your information out to the right lenders for consideration.

Lenders often issue a pre-approval letter to a buyer. Helpful to all parties; signaling that the buyer's funding is already approved and they're buying at a level that makes sense. Sometimes it can mean the difference between getting losing a property when there are multiple offers.

Insurance Broker

The insurance broker is a very important part of any real estate transaction and should be involved as early as possible in the process. Things like the age of the house, age and type of roof, prior water claims, and more can cause insurance premiums to be higher.

Understanding and planning for the risks - both pre- and post-closing - involved in purchasing a property can mean all the difference between a great and terrible experience for the buyer. In addition to providing an insurance premium cost estimate before closing, the broker can pull the property's loss history to determine if there were losses that should concern the buyer, provide an estimate of the insurable value, involve an insurance company for a pre-purchase inspection, and many other valuable services.

Title Company

A title company can provide title insurance, assuring the buyer that the seller has clear title to sell the property. They can also help with property tax information, referrals for inspectors, surveyors, and other

vendors. A title company closer and assistant can help calculate closing costs, wire funds, notarize documents, and a host of other services.

Other Issues

Concerned about living in a house where a questionable death occurred in the past? You can try www.diedinhouse.com, or, even better, talk to neighbors about the history of the house and its residents. People are often happy to talk about their former neighbors.

Worried about crime? Websites like www.criminalwatchdog.com can help determine if criminal types live nearby. Check police reports in local newspapers. Also, the local police website can often point you to information sources.

Have young children that will want to play outside? What is the speed limit in the neighborhood? Is it an area prone to speeding? Are there stop signs to slow traffic? Research and know before you buy.

Although the process and details may seem initially daunting, purchasing a property can be a fun and profitable venture. Today's wide range of information and professional services makes due diligence an easier and more effective experience than ever. Use these resources wisely and you'll make the most informed and profitable, decision possible.

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