

Commercial Real Estate Due Diligence Checklist

The due diligence process is your first and most important safeguard before investing in commercial real estate. It serves as your defense against hidden risks and unrealistic projections, helping you make informed and confident investment decisions. Proper due diligence means going beyond glossy brochures or marketing materials—it's about verifying every assumption, number, and claim.

This process allows you to evaluate not just the property, but also the people managing it, the market in which it operates, and the long-term sustainability of the business plan. A well-structured due diligence review helps uncover potential red flags early—issues like overestimated rent growth, deferred maintenance, poor market fundamentals, or inexperienced sponsors—before they become costly surprises.

Whether you're investing in multifamily, retail, self-storage, or senior housing, the core principles remain the same: understand the deal, validate the data, and know the people behind it. Use this checklist as your step-by-step guide to examine every aspect of an investment—from financials and market trends to sponsor credibility and property conditions—before committing your capital.

1. Offering Memorandum (OM) or Investment Summary

- Review the full OM or Investment Summary, not just marketing highlights.
- Verify rent growth assumptions against actual market data.
- Examine trailing 12-month (T-12) financials and compare them to pro forma projections.
- Review the rent roll for:
 - Long-term vacancies
 - Surge in new leases in recent months
 - Lease expiration concentration
 - Underperforming unit types
- Evaluate the business plan: Are value-add strategies specific and realistic (e.g., unit upgrades, new amenities)?
- Check projected Net Operating Income (NOI) improvement and cap rate assumptions.
- Is the loan a variable or fixed loan? Understand the terms fully.

2. Assess the Sponsoring Team

- Review the sponsor's experience in the same asset class and market.
- Request past deal performance (planned vs. actual results).
- Attend a live webinar or Q&A to evaluate transparency and knowledge.
- Schedule a one-on-one call to discuss their background and lessons learned.
- Ask for two references from prior investors who have invested multiples times and had full life cycle experience
- Coinvestment: Are the sponsors personally investing in the deal? How much total capital are they contributing? Their financial participation shows commitment and alignment with investors.
- Confirm sponsor's role: Confirm whether the sponsor is actively managing the asset or simply raising capital. True sponsors take responsibility for operations, performance, and execution—not just fundraising.

3. Location and Market Demographics

- Confirm population growth and job diversity in the metro area.
- Avoid markets dependent on a single industry or employer.
- Validate population and employment trends using reliable data (e.g., City-Data.com).
- Check rent-to-income ratio: Income should be at least three times annual rent.
- Review neighborhood safety (SpotCrime.org) and school quality (GreatSchools.org).
- Assess proximity to key amenities such as grocery stores, hospitals, and retail.
- Verify transportation access including airports, major highways, and public transit.

4. Property-Specific Due Diligence

- Review asset age, maintenance history, and recent renovations.
- Compare amenities with local competitors (e.g., gym, pool, dog park, in-unit washer/dryer).
- Confirm physical inspection of roof, HVAC, plumbing, and foundation by third-party professionals.
- Identify any deferred maintenance or major repair costs.
- Compare neighboring properties by age, condition, amenities, and occupancy.
- Check the property and neighborhood online using tools like Google Maps, crime and school rating sites, and local forums.
- Ask a friend in the area or someone you know well to visit the property in person, drive through the neighbourhood, and share firsthand impression of both the asset and the neighborhood.

5. Risk Mitigation and Final Review

- Review financing terms including loan amount, interest rate, amortization, and prepayment penalties.
- Verify insurance coverage for property, liability, and loss of income.
- Review exit strategy and projected hold period.
- Assess sensitivity analysis—how the deal performs under lower rent or higher vacancy.
- Understand investor communication frequency (monthly, quarterly, or semiannual).

Once you've reviewed these areas, you'll have a complete picture of the deal's strengths, risks, and sponsor credibility.