Potential Buyers Should Do Extensive Research Before Buying A Residential Or Commercial Property

The New RiskFootprint™ should be part of the due-diligence process so that a buyer will understand a property's safety, sustainability, and resilience

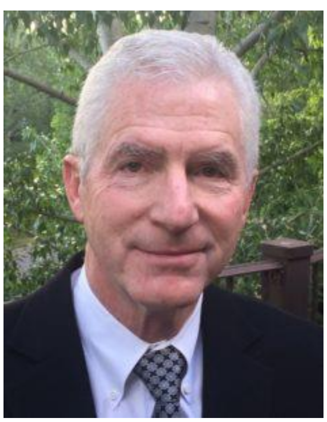
April 6, 2021* | *Albert J. Slap, President, RiskFootprint™

During the pandemic, the real estate industry experienced significant population shifts from cities to suburbs and from rental to home ownership. The sale of vacation homes skyrocketed in popular coastal and mountain areas, and sale of distressed commercial/industrial properties increased.

In this supercharged real estate market, some properties are being marketed "as is" and "where is" for cash, with no inspection or due diligence permitted. Feeling these pressures, many buyers unfortunately accede to such one-sided demands.

My strong recommendation would be to pass such properties by for ones where a full and complete due diligence inspection can be completed.

Many home buyers or investors struggle with the real estate due diligence process. It can be intimidating, especially if you've never done it before.



Albert Slap

Over the years, there have been many articles about real property due diligence, generally. They typically identify and stress the standard and important aspects of the "caveat emptor" ("let the buyer beware") process.

I intend to identify these essential action items to ensure a smart and smooth buying or investing experience. But first I want to introduce you to a new due-diligence tool, the RiskFootprint™. It provides flood, natural hazard, and climate impact risk assessments for any property in the U.S. and its surrounding neighborhood.

Here is the very first rule of real property due diligence

Start the process well before you enter into an agreement of sale. Generally, smart buyers are not looking for a single or unique, one-of-a-kind property.

They may be looking for a home or commercial/industrial property in a city, town, zip code or neighborhood that is close to jobs, markets, and transportation. Buyers typically do not realize that, even within a neighborhood, there can be significant differences in the flood, natural hazard and climate impact risks to a particular home or business.

Most buyers have been told that that they need to look at the FEMA flood zone of a property, but, not much more than that. Financial and personal injury risks from unexamined, extreme events such as floods, tornados, wildfires, and earthquakes can be much greater than the "normal" due diligence items such as radon gas or wood-boring insects, which are included nowadays in most home inspections.

RiskFootprint™ reports are available online at www.riskfootprint.com for any property and any neighborhood in the U.S., including Alaska, Hawaii, and Puerto Rico. These reports are fast, accurate and affordable.

RiskFootprint™ reports should be ordered and reviewed well before you settle on a single property and definitely before entering into an agreement of sale. By doing this, a short list of properties can be created that are in your price range and meet your criteria. Then, the short list properties can be ranked in terms of each property's safety, sustainability, and resilience. Forewarned is forearmed.

Here is the second rule of property buying due diligence

Except in the most extreme situations (like low-lying coastal properties already experiencing greater than 30-days/year of tidal flooding), there are no right or wrong properties. Even where flood, natural hazards and climate impacts are identified, a buyer and the property can still be a reasonable match.

A buyer needs to consider four factors prior to the purchase:

— the property

— the risks

— the person/pocketbook

—the community

Let me explain. First, each property (residential or commercial) is different – even adjoining properties can be very different in terms of risks. Each property may have a different elevation of the land and the height of the first, finished floor (FFE or Finished Floor Elevation). Buyers need to look at the property’s Elevation Certificate and compare it with specific flood inundation risks and property vulnerabilities.

Second, the buyer needs to examine the risks identified in the RiskFootprint™ Report. The RiskFootprint™ includes over 14 risk factors, such as: floods, wind, tornados, wildfires, earthquakes, tsunamis, as well as extreme heat, extreme rainfall, and drought.

Third, the buyer and the buyer’s pocketbook need to be considered. Whether a buyer and a property are a good match may depend on the buyer’s age and family status, whether the home is primary or secondary, and whether the investment is a large or small percentage of the buyer’s overall net worth.

For example, if the buyers plan to live in a property for only a few years, this is important when evaluating climate risks such as sea-level rise in coastal areas. If the buyers are of modest means and the home or investment is a major part of their net worth, then the physical risks gain greater importance.

If the home or investment is a small part of the total net worth, and insurance coverage is adequate, then the physical risks may have less significance. Plus, buyers with more assets can also afford to make improvements to the property to make the property safer, more sustainable, and resilient.

Finally, buyers need to look at the community and determine if it has the political will and the financial resources to keep the streets dry and the lights on. If extreme events like hurricanes or wildfires have occurred repeatedly in the area and the local jurisdiction does not have a capital improvement plan to deal with such risks, then, that may not be a good place in which to invest.

<u>16 “To-Dos” for Real Estate Due Diligence:</u>

1. Order a RiskFootprint™ Report – floods, natural hazards and climate impacts at the property and neighborhood levels, www.riskfootprint.com;

2. Obtain seller disclosure(s), as soon as possible, even prior to signing agreement of sale;
3. Home inspection – mechanical, electrical, plumbing, appliances, including well and septic, if applicable;
4. Wind mitigation Inspection – roof;
5. Wood-boring Insect inspection;
6. Radon gas inspection;
7. Lead paint/lead pipes (older homes);
8. Asbestos inspection (older homes);
9. Appraisal and survey of property;
10. Commercial – environmental site assessment (ESA) phase 1;
11. Commercial – property condition assessment;
12. Speak with neighbors, police, town officials about the property and neighborhood and determine any risks;
13. Speak with an insurance broker – find out insurance coverages in place and costs – building, contents, and flood insurance. Get up-to-date insurance quote;
14. Title insurance;
15. HOA covenants and future assessments – go over at least three years of HOA board minutes;
16. Speak with the building department about zoning, land use and building code issues, if any.

Conclusion

Now you should feel better equipped to perform your due diligence on a residential, commercial or land purchase. The purpose of due diligence is to collect enough information on the property and its surroundings to make the smartest decision possible.

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