

Commercial Real Estate Due Diligence Checklist

This comprehensive guide outlines the critical elements to evaluate before committing to a commercial real estate transaction. From financial verification to exit strategy planning, this checklist serves as your essential companion for thorough property assessment. Use it to ensure no crucial detail escapes your attention during the evaluation process.

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Financial Analysis

Income & Expense Records

Review the trailing 12-month income and expense statements to establish accurate operating costs and revenue streams. Look for seasonal fluctuations, unusual expenses, or inconsistencies that might signal hidden issues.

Rent Roll Verification

Examine the complete rent roll with lease expiration dates. This helps forecast potential vacancy risks and provides insight into tenant turnover patterns that could affect future cash flow.

Financial Projections

Compare realistic pro forma projections against actual historical performance. Be wary of overly optimistic income forecasts that cannot be substantiated by market trends or property history.

Additionally, assess capital expenditure history and reserve requirements to anticipate major upcoming expenses. Request documentation of recent improvements and maintenance records to validate the financial claims and identify potential deferred maintenance issues that could impact your investment.

Tenant and Lease Evaluation

Tenant Assessment

- Investigate creditworthiness of all tenants through financial statements and credit reports
- Review payment history for evidence of consistently late payments
- Research tenant business stability and growth prospects
- Evaluate tenant mix for complementary businesses

Lease Structure Analysis

- Categorize leases by type (NNN, Gross, Modified)
- Verify CAM reconciliations and escalation clauses
- Check remaining lease terms and renewal options
- Note any unusual provisions or tenant-favorable clauses

Understanding the lease structure is crucial as it directly impacts risk exposure and management responsibilities. Triple net (NNN) leases shift most expenses to tenants, while gross leases require the landlord to cover operating costs. Modified leases fall somewhere in between, with specific expense allocations negotiated individually.

Physical Property Inspection



Professional Inspection Report

Commission a comprehensive inspection report from qualified professionals. This should include structural elements, building systems, and potential deficiencies requiring immediate attention or future remediation.



Building Systems Evaluation

Document the age and condition of critical systems including roof, HVAC, plumbing, and electrical. Estimate remaining useful life and replacement costs for each major component to develop an accurate capital expenditure plan.



Compliance Assessment

Verify ADA compliance status and identify any code violations. Understand the cost and timeline for bringing the property into full compliance with current regulations if deficiencies exist.



Environmental Due Diligence

Review Phase I environmental reports and determine if Phase II testing is warranted. Identify potential contamination issues or environmental liabilities that could significantly impact property value or usability.

Zoning and Legal Review

Thorough legal verification is essential to prevent costly regulatory issues after purchase. Begin by confirming that current zoning designations explicitly permit both existing operations and any planned future uses for the property. Request copies of certificates of occupancy and verify they match current utilization.

Investigate any variances, conditional use permits, or special exceptions that may affect the property. These special permissions can sometimes expire or contain restrictions that limit flexibility for future adaptations. Additionally, review any overlay districts or upcoming zoning changes in municipal planning documents that could impact property value.

Conduct a comprehensive title search to identify encumbrances, easements, or restrictions. Resolve any boundary disputes, liens, or legal proceedings involving the property before closing. Review property tax assessment history and challenge any overvaluations that could affect your future tax burden.

Market and Location Analysis

Market Metrics

Gather comprehensive market data including vacancy rates, absorption trends, and comparable cap rates. Research recent transactions for similar properties to establish fair market valuation benchmarks. Analyze rental rate histories to identify cyclical patterns and project future income potential.

Class A Vacancy Rate	Cap Rate Range	Avg. Lease Rate (\$/sf)
4.8%	5.5-6.2%	\$24.50

Demographic Indicators

Evaluate population growth trajectories, median income levels, and employment diversification. Research business expansion announcements and economic development initiatives that could enhance property demand. Consider demographic shifts that might impact tenant sustainability.



Assess physical attributes including visibility from major thoroughfares, traffic counts, and accessibility from population centers. Identify competing properties in the immediate vicinity and evaluate their occupancy rates, tenant mix, and rental structures to determine your competitive position.

Exit Strategy Planning



Investment Timeline Analysis

Compare hold vs. flip scenarios with projected returns for each approach based on market cycle positioning and property improvement potential.



Value-Add Opportunities

Calculate projected property value after implementing strategic improvements such as renovations, tenant mix optimization, or operational efficiencies.



Financing Options

Research available financing and refinancing opportunities that could maximize cash flow or facilitate strategic repositioning of the asset.



Buyer Pool Assessment

Identify potential future buyer categories (institutional investors, owner-operators, developers) to shape improvements toward their preferences.

A well-conceived exit strategy should be developed before purchase, not as an afterthought. Consider multiple scenarios including market downturns or unexpected property issues. Document your assumptions about market appreciation, rental growth rates, and expense increases so you can track performance against projections throughout the holding period.

Checklist Implementation Guide

Pre-Offer Investigation

Before submitting an offer, conduct preliminary research on financials, market conditions, and property history. This initial review helps determine if the property warrants further investigation and informs your initial offer price.

Due Diligence Period

Once under contract, systematically work through each checklist section. Allocate sufficient time for specialized inspections and third-party reports. Document all findings and maintain communication with the seller regarding discovered issues.

Decision Point Analysis

Compile findings into a comprehensive report highlighting any red flags or opportunities. Make data-driven decisions about proceeding with the transaction, renegotiating terms, or exercising contingency clauses to withdraw from the deal.

Print this checklist and bring it to every property inspection and seller meeting. Create a dedicated due diligence file for each potential acquisition where you can store documents and notes organized by checklist category. Consider developing a scoring system for each section to objectively compare multiple investment opportunities against your specific criteria and investment goals.