

What is Due Diligence

What it means and why it's so important to investors

What is meant by due diligence and how does it relate to commercial real estate? Due diligence is a procedure where an investor considering making an investment is provided with an opportunity to examine the asset concerned in some detail, normally prior to making a firm commitment to invest. For example, if you were looking into buying a business and were going to invest a fair amount of money and time into that business, it is critical to your homework when gathering information about that business. This process is commonly referred to as conducting *due diligence*. In most purchases of small businesses, the buyer will want to learn everything possible about a business before signing the purchase agreement. The responsibility to follow-up on and check out the statements made in any business document falls squarely on the shoulders of the investor.

The next issue to consider is how the due diligence gets accomplished. This varies considerably from deal to deal. At the first level, a potential investor may pass the business plan along to an associate who has specific experience in the same (or a similar) area of the new venture. Technical drawings, terminology, articles cited, machinery or processes described, pricing and shipping practices, and marketing channels are all examples of categories within the plan that need to be checked carefully by investors to see if the business owner really knows what he or she is talking about. Certain industries may have very unique issues in these and other company functions. A skilled eye with experience in that same market space will be able to comment on the accuracy of the statements made. If your general contracting business idea doesn't convey a clear understanding of the specific issues related to building supplies, pricing, payment terms or financial commitments on real estate, then due diligence should readily pick up on these as red flags that bring into question the overall quality of the deal.

Due diligence is simply a check and double-check of the pertinent pieces of the deal before deciding whether to provide capital.

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