

Land Investment
Technical Analysis Service

LITAS

The Ultimate Guide to
**Land Transaction
Due Diligence for
Timberland Assets**

The Orbis logo features a stylized teal arc above the word "Orbis" in a white, bold, sans-serif font.

Timberland asset managers who purchase large holdings of land face an existential question. One that, left unanswered, can cause the asset to lose value.

Does the land you think you're buying match the land you're actually getting?

The answer to this question is the difference between an asset that helps your portfolio grow and one that you have to work on constantly to maintain the portfolio's performance. That's because unresolved discrepancies burden a transaction's future performance, hurts ROI and creates expensive surprises.

The truth is many land asset managers don't have the tools to conduct a thorough review of every acre in a transaction. Fortunately, land asset managers can use GIS-enabled land transaction due diligence to improve ROI, reduce errors up to 95% and unlock total visibility into their assets.

In this guide, we review land transaction due diligence – what it is, how it works and how it benefits asset managers and their clients.

What Is Land Asset Due Diligence?

Land deeds in the United States are full of inaccuracies.

Most plots of land were last surveyed between 1781 and 1851 using historical surveying practices. When compared with today's methods, they risk containing inconsistencies. The result is that the legal and actual boundaries of an asset are not the same. This has significant implications for land asset managers.

Small discrepancies in a deed may seem inconsequential. But if you purchase timberland assets with any kind of scale, these differences start to add up fast. A small error of a few acres can result in you paying for timberland assets without actually acquiring them. In addition to hurting the profitability of the transaction, this could also result in you overpaying years of taxes on property you don't actually own or missing out on leveraging property that you didn't know you owned.

Land asset due diligence is the process of reviewing a transaction to ensure what's in the contract matches what's on the ground. This identifies any potential discrepancies between the assets, so buyers and sellers can resolve them before closing. This increases the ROI of transactions and fixes errors before they become costly.

How GIS Improves Due Diligence

GIS (geographic information system) is a tool that uses spatial data points, lines, and polygons to represent information about the Earth at a specific space in time.

GIS applications allow users to display and analyze data in an interactive and visual way. You can also track the way spatial information changes over time.

One of the most powerful features GIS offers the timberland industry is the ability to map the boundaries of a transaction against the actual legal boundaries of the property.

Let's take a look at how it works.

How to Conduct Transaction Due Diligence

For centuries, asset managers and attorneys who conduct due diligence have done so by reviewing each document by hand. This is a slow, tedious process that guarantees your documents and legal information are correct.

When conducting due diligence for large plots of land – in the hundreds of thousands or millions of acres – the manual due diligence becomes enormous. The process requires a fully-staffed team and key transactional areas can go unnoticed. And when you're dealing with transactions on this scale, small issues add up to expensive problems.

By adding GIS, asset managers and attorneys can focus their resources to areas that need attention. Especially on large transactions.

Increasingly, asset managers and attorneys are turning to technology to improve the accuracy of transaction due diligence. Let's break down how the due diligence process works, and how combining GIS technology with rigorous legal review can make it more effective.

Step #1: Map the Transaction Using GIS Software

First, map out the intended land boundaries of the transaction. This involves adding the coordinates of the property to your GIS application. The result is a clear visual display of the land you intend to buy.

Next, over the map you just created, chart the exact boundaries written on the deed. This represents the legally-defined boundaries of the property.

The end result of this process is a single GIS map with two representations of the property.

Most of the time, the two boundaries will be different.

Step #2: Identify the Discrepancies

With the boundaries of the transaction visualized, identifying the differences between what's in the deed and what's on the ground is simple.

You can use the GIS application to sort the sections of the map into categories, including:

- ▶ Land that's in the deed but extends beyond the intended boundaries of the property
- ▶ Land being purchased that's not in the deed
- ▶ Land that's accounted for by both the deed and the effective boundaries of the property

Armed with this information, you now know precisely which parts of the transaction you need to resolve.

Step #3: Resolve Issues in the Contract

With a clear overview of where the deed and the intended property boundaries differ, you can resolve the discrepancies while contract negotiations are still open.

How you approach this will depend on your role in the transaction, but your goal is to address inaccuracies and long-term issues. This will improve your position during the transaction and provide greater profitability throughout the life of the asset.

Step #4: Digitize the Land Records

Once you've finished the transaction, you'll need to manage all this information, including your new deed. You can do this manually, but it will likely be time-consuming and hard to keep up with over the life of the investment.

Land record management software automates this process by centralizing your information and documentation as well as connecting them directly to the maps you've created in the GIS software. This way, you can click on the map and view the corresponding section of the deed in seconds.

Who Provides Digital Transaction Due Diligence?

Now that you're familiar with how the technical due diligence process works, you might be wondering who conducts due diligence for transactions. Who actually does the work?

Traditionally, this process has fallen to the law firms and title companies handling the transaction. Lawyers and paralegals would, and still do, map out transactions by hand.

But with the amount of labor this process requires – and with the growing need for technical support – many firms don't have the time or capacity to handle this service in house. Additionally, the integration and implementation of spatial and digital data requires specialized skill sets and software training.

Because of this, many buyers, sellers and law firms outsource due diligence – and the associated technology requirements – to technology providers who specialize in the land asset management industry. This significantly speeds up transactions while providing greater accuracy.

Tools for Conducting Transaction Due Diligence

So far, we've reviewed how GIS technology can make any transaction much faster and more accurate. But leveraging those benefits will require a robust GIS-based due diligence software.

Due Diligence Software

In theory, you could use any GIS mapping application to conduct due diligence. But if you're conducting land transactions at scale, an application designed for your specific business processes and proven in your industry will offer:

- ▶ Greater flexibility
- ▶ Detailed reporting
- ▶ Robust automation
- ▶ Powerful integrations

This allows you to set up your due diligence systems and technical configuration, establishing a repeatable and standardized process



Cloud vs. Onsite

There are two methods of GIS due diligence: desktop (onsite) and cloud-based.

When companies first started using GIS, applications and data had to be housed locally. By today's standards, they're difficult and expensive to maintain and limit the accessibility of the technology. While they're still in use today, the lack of inability to conveniently and safely share information with larger groups is causing this to become more of a legacy technology.

In contrast, cloud-based solutions have emerged as the next evolution in GIS. And it's easy to see why. With 24/7 access to GIS data, instant updates and zero IT burden, cloud GIS is now the industry standard. For firms looking to modernize their due diligence process, a cloud-based GIS solution should be a priority.

Conclusion

Proper due diligence helps buyers, sellers and law firms speed up land transactions and mitigate inaccuracies. All while improving visibility into the assets. With the right partner and due diligence system in place, you can turn the burden of verifying transactions into an opportunity to maximize the profitability of the deal.

Orbis works with asset managers, law firms and other timberland professionals to ensure proper land transaction due diligence. Get in touch today to learn how we can add value to your investment.



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