

WHERE WILL OUR ADVENTURES IN UNDERWRITING TAKE US TODAY?



- 1 Underwriting Logistics & What you will Need
- 2 Reports / Sources you Need - Reports Show & Tell
- 3 Quick First Steps – Quick Analyzer
- 4 Understanding Returns : CoC, AAR, EM & IRR
- 5 Rent Comps
- 6 Debt - Lending for Multifamily
- 7 Syndication Structures
- 8 Bonus Underwriting Video Content

THINGS YOU NEED TO UNDERWRITE A PROPERTY

For the MARKET and NEIGHBORHOOD

- Market Vacancy %
- Forecasted Rent Growth
- New construction / incoming units
- Path of progress
- Crime
- Schools
- Local Employers
- Key Demographics
 - ❖ Median household income
 - ❖ Job Growth Trends
 - ❖ Population Trends
 - ❖ Unemployment Rate

THINGS YOU NEED TO UNDERWRITE A PROPERTY

BESIDES the OM, T12 and Rent Roll – what do you need to underwrite a property?

PROPERTY SPECIFIC

- Rent Comps
 - Other Income / Rubs
 - Hidden Upsides?
- Market Benchmarks for operating expenses (Rules of Thumb)
- Capex Plan
 - Renovation plan for units
 - Renovation plan for exterior
 - Additional Amenities?
- Property Tax Quote - Tax Assessor
- Insurance Quote – Insurance Agent
- Debt Quote or Ballpark Lending Terms - Lender

SOURCES YOU NEED TO UNDERWRITE A PROPERTY



REPORTS and RELATIONSHIPS

- **Costar FULL Underwriting Report**
- Market Reports – Yardi Reports, Costar Market Report, **Local Market Monitor**
- Neighborhood Reports – **Neighborhood Scout**, City-data.com, InvestReal.com
- Property Manager(s) for budgeting, expenses, renovation costs
- Boots on the Ground Local Intelligence

[Go to Link 23 in Bootcamp Portal sheet - Sample Reports Folder](#)

QUICK FIRST STEPS TO UNDERWRITE A PROPERTY

Quick Analysis

1. Research Market and Local Neighborhood

2. Use Quick Method to determine interest

- MFU-quick-deal-analyzer v6.7

Find it under Link 23 in Bootcamp Portal sheet



MultifamilyU

[become a multifamily expert](#)

MULTIFAMILYU QUICK DEAL ANALYZER

	Avg Cash on Cash	IRR	EMx	Avg Annualized
Project	12.0%	27.4%	2.9X	38.3%
Investor	8.4%	17.3%	2.0X	20.8%

OVERVIEW & ASSUMPTIONS

Purchase & Sale Assumptions		
Purchase Price		\$ 9,500,000
Cap Rate (Year 1)		8.9%
Closing Costs	3.50%	\$ 332,500
Reserves at Close	\$675/unit	\$ 117,450
Hold Period		5 Years
Sale / Exit Cap Rate		6.0%
Sale Costs		2.5%
Operating Assumptions		
Revenue Growth Rate		3.0%
Expense Growth Rate		3.0%

DISPOSITION & RETURNS

		\$/Unit	Year 5
Sale Price		\$ 97,813	\$ 17,019,382
Disposition Costs		\$ (2,445)	\$ (425,485)
Disposition Fee		\$ -	\$ -
Debt Defeasance		\$ (39,414)	\$ (6,857,976)
Net Proceeds		\$ 55,954	\$ 9,735,922
	%	Cashflow	Sale Proceeds
Investor	70%	\$ 1,769,531	\$ 6,815,145
Sponsor	30%	\$ 758,370	\$ 2,920,777
Sponsor total with all fees			\$ 4,149,459

RENT ROLL

Unit Type	Count	SF	Current (\$)	Market (\$)	Premium Count (Optional)	Premium Incr (Optional)	Premium Market Rent (\$)
1 bd / 1 ba	18	596 SF	\$ 700	\$ 725	14	\$ 75	\$ 800
2 bd / 1.5 ba	102	930 SF	\$ 795	\$ 825	76	\$ 100	\$ 925
3bd / 1.5 ba	54	1125 SF	\$ 875	\$ 925	40	\$ 125	\$ 1,050
Total	174	166,338 SF	\$ 140,940	\$ 147,150	130	\$ 13,650	\$ 123,500

DEBT STRUCTURE (Optional)

Loan to Value		75.0%
Loan Amount		\$ 7,125,000
Interest Rate		3.75%
Amortization		30 Years
Interest Only Period in Years		3 Years
Debt Coverage Ratio (DSCR) Yr 1		3.2X

ESTIMATED CASH FLOWS

	Year 1	\$/Unit	Year 5
Revenues			
GPR	\$ 1,765,800	\$ 10,148	2,002,339
Loss to Lease	\$ (49,680)	\$ (286)	-
Vacancy	\$ (141,264)	\$ (812)	(160,187)
Other Income	\$ 125,000	\$ 718	140,689
EGR	\$ 1,699,856	\$ 9,769	1,982,841

DEAL STRUCTURE (Optional)

Sponsor Compensation	30%	70% Investors
Hurdle / Investor Pref		0.0%
Acquisition Fee	3.0%	\$ 285,000
Asset Mgt Fee	2.0%	\$ 185,312
Renovation Mgt Fee	0.0%	\$ -
Disposition Fee	0.0%	\$ -

RENOVATION COSTS (Optional)

Item	\$	\$/Unit
Interior	\$ 650,000	\$ 5,000
Exterior	\$ 350,000	\$ 2,011
Contingent (10%)	\$ 100,000	\$ 575
Total	\$ 1,100,000	\$ 6,322
Renovation Mgt Fee	\$ -	\$ -
Total Costs	\$ 1,100,000	\$ 6,322

MARKET DEMOGRAPHICS (Optional)

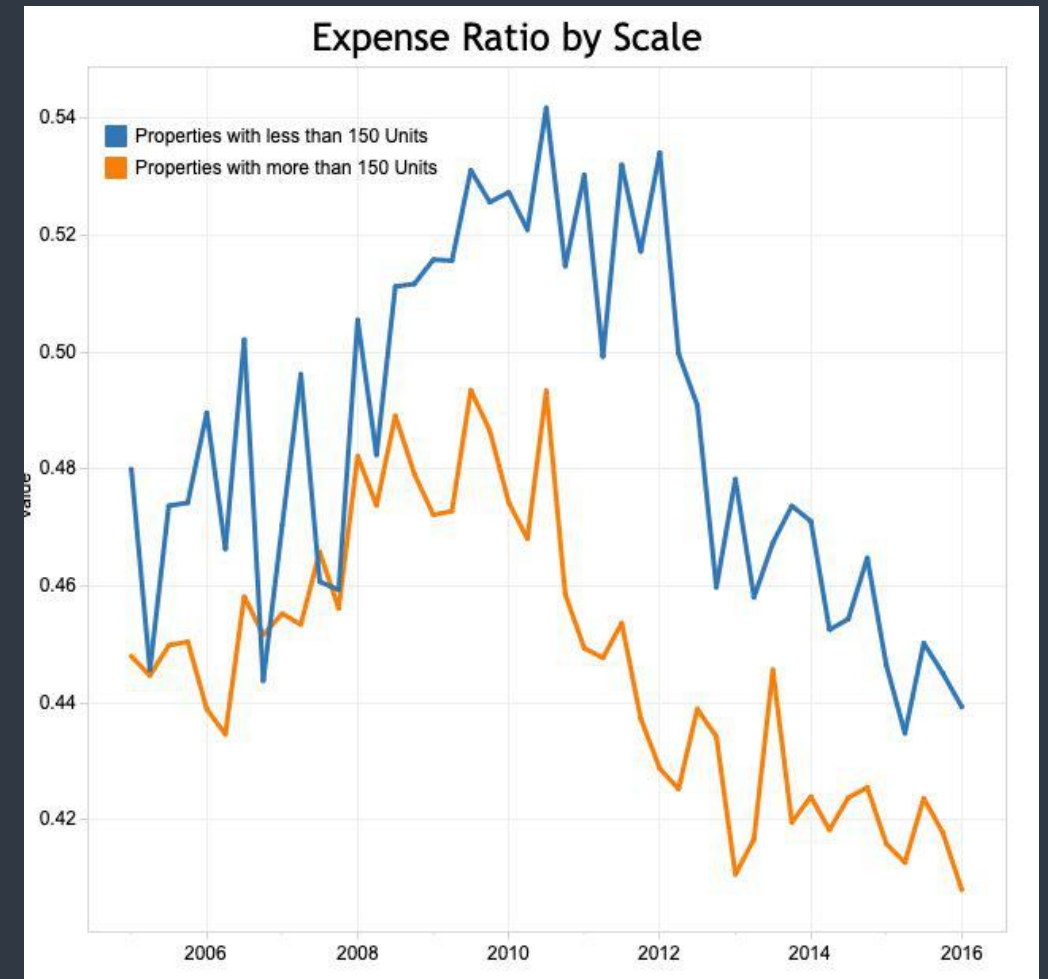
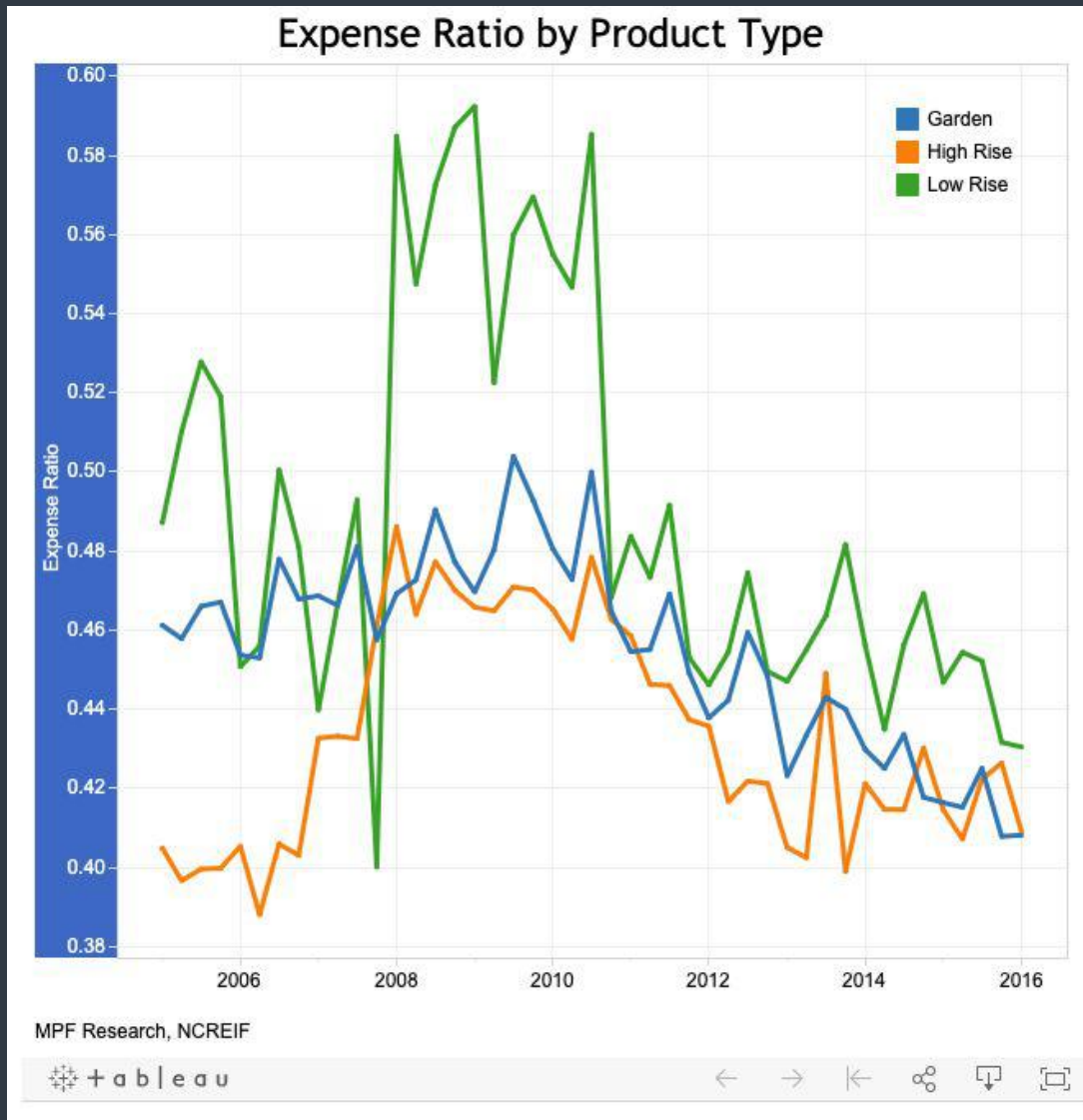
Median Household Income	Population Growth	YOY Job Growth
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Expenses	Year 1	\$/Unit	Year 5
Management	\$ (84,993)	\$ (488)	\$ (99,142)
Payroll	\$ (35,296)	\$ (203)	\$ (39,726)
Admin	\$ (11,996)	\$ (69)	\$ (13,502)
Marketing	\$ (600)	\$ (3)	\$ (675)
Maintenance	\$ (14,390)	\$ (83)	\$ (26,198)
Contract Services	\$ (10,743)	\$ (62)	\$ (12,091)
Utilities	\$ (35,696)	\$ (205)	\$ (40,176)
Insurance	\$ (6,400)	\$ (205)	\$ (40,176)
Property Taxes	\$ (9,321)	\$ (54)	\$ (10,491)
Other	\$ (1,864)	\$ (11)	\$ (2,098)
Total Op Exp	\$ (849,928)	\$ (4,885)	\$ (991,420)
Op Ex Ratio	50.0%		50%
Net Op Inc	\$ 849,928	\$ 4,885	\$ 991,420
Asst Mgt.	\$ (33,997)	\$ (195)	\$ (39,657)
Reserves	\$ (50,996)	\$ (293)	\$ (59,485)
Debt Service	\$ (267,188)	\$ (1,536)	\$ (420,029)
Cash Flow	\$ 497,748	\$ 2,861	\$ 472,249

SOURCES & USES

Sources	\$	\$/Unit	%	Uses	\$	\$/Unit	%
Debt	\$ 7,125,000	\$ 40,948	62.9%	Property	\$ 9,500,000	\$ 54,598	83.8%
Equity	\$ 4,209,950	\$ 24,195	37.1%	Construction	\$ 1,100,000	\$ 6,322	9.7%
				Reserves	\$ 117,450	\$ 675	1.0%
				Acq Fee	\$ 285,000	\$ 1,638	2.5%
				Closing Costs	\$ 332,500	\$ 1,911	2.9%
Total	\$ 11,334,950	\$ 65,143	100.0%	Total	\$ 11,334,950	\$ 65,143	100.0%

OPERATING EXPENSES FOR MULTIFAMILY



“The most interesting (and obvious) takeaway is the **operational economies of scale in play: apartment properties with more than 150 units maintain an expense ratio as much as 58 basis points below** apartment properties with fewer than 150 units over the last 10 years.”

CALCULATING RETURNS – EVALUATING THE DEAL



Key Investment Metrics



Cash on Cash or CoC



Simple Annualized Return



Demo Cash on Cash & Calculating Returns
Go to Link 23 in Bootcamp Portal sheet - [Resources Excel File](#)

CALCULATING RETURNS – EVALUATING THE DEAL

Key Investment Metrics



Internal Rate of Return or IRR



Equity Multiple or EM



Demo Calculating Returns

Go to Link 23 in Bootcamp Portal sheet - [Resources Excel File](#)

OUR IDEAL INVESTOR RETURNS BY DEAL TERM



For Value Add Deals : Class B and Class C

	2 – 3 YEAR HOLD	5 YEAR HOLD	10 YEAR HOLD
Avg CoC	8 – 9%	8 - 10%	9 - 11%
AAR	24 - 26%	19 - 20%	17 - 18%
IRR	23 - 25%	17%, 15% w/o refi	13 to 15%
EM	1.5x – 1.7x	1.9x – 2.1x	2.9x – 3.1x

- If your LP returns are BELOW, adjust your deal structure to give more to the LP while still keeping enough \$ for GP to make the deal worth doing, or abandon deal.
- If your LP returns are ABOVE, adjust the deal structure to give more to the GP (through fees, Catch-up and bonus tiers described in later slides) and/or increase conservatism in assumptions of your UW model so that you can “exceed” performance

For above rules, focus more on **AAR**, **EM** and **Avg CoC** than **IRR**, as IRR can vary considerably by timing of refi, tax credits etc. If your IRR is above the numbers shown but the other numbers are in line, it is fine.

RENT GROWTH



Rent Growth in a Market is based on

- Supply/Demand
- Population Growth
- Job Growth
- Supply
 - Cost of Alternatives
 - Single Family Home Prices
 - Rent Vs Buy Ratio

- Recession / Black Swan Events

RENT COMP RESEARCH



Rental Comparable Analysis or Rent Comps is an Iterative Process

01 STEP ONE is online research for STAGE ONE of your analysis

Build list of similar properties (Sources: Broker, PM's, Online Research)

- Year Built or Vintage
- Distance from property
- Number of Units
- Unit Types and Sizes in terms of Square Footage
- Classic or Renovated?
 - If renovated, when?
- Amenities

Once properties identified, use paper to build out comparison matrix, or excel.

Go to Link 23 in Bootcamp Portal sheet
Rent Comps & Amenities Tab in Resource Excel File

RENT COMP RESEARCH – NEXT STEPS



02

STEP TWO Confirm online research by calling each apartment community to verify info.

Pretend you are a prospective tenant looking to rent...

- Pricing for each size unit (may require multiple calls)
- Incentives or Rent Specials
- Upgrades / Renovations (difference in pricing?)
- Amenities for the property
- Additional Charges – parking, pets, utilities

WHAT'S NEXT?

Once in LOI or for sure during your Due Diligence period – VISIT the actual comp properties to do an additional level of confirmation of pricing

FANNIE MAE & FREDDIE MAC : AGENCY DEBT

Quote on a Fannie Mae loan from 2019:

- \$32,078,000
- 10-year term / 9.5 years YM
- 5.05% all in rate
- 5-years IO, followed by 30-year AM
- Actual/360
- Min. DSCR 1.25

Recourse vs Non-Recourse

Prepayment Penalty Step Down vs Yield Maintenance

Loan Assumption

Swope Plaza Estates		
	Fannie Mae	Freddie SBL
Loan Amount	\$1,986,000	\$1,983,000
Amortization	30	30
Term	10 years	10 years
LTV	74%	73%
Interest Only	1 Year	3 years
Current Interest Rate	5.66%	5.35%
Recourse	Non-recourse	Non - Recourse
Prepayment	5%-5-4-4-3-3-2-2-1-1	5%-5-4-4-3-3-2-2-1-1
W&D Brokerage Fee	1.0%	1.0%

Go to Link 23 in
 Bootcamp Portal
 sheet - [Sample Debt
 Quotes](#)

BRIDGE LOANS

Quote on a bridge loan from 2019:

Loan Amount: \$4,840,000, includes \$2,200,000 for renovations

Maximum LTV/LTC: 80% of purchase price plus 100% of renovations

Minimum Debt Yield: 5.86% at closing, 8.00% at stabilization

Interest Rate: 30-day LIBOR + 395 bps

Term: 3 years plus two 1-year extension options

Amortization: Interest only during term, 30-years during extensions

Annual Capital Reserves: \$250 per unit

Capital Renovations: \$2,200,000, \$ to be fully disbursed within 1 year of closing

- 100% renovations included
- Requires refinance if longer hold
- Floating** interest rate
 - based on 1 month LIBOR rates
How do you find that?
 - BPS
One basis point = .01%
 - **What would be the interest rate today for this loan?**
- What is the usual Bank spread?
What is the bank spread now?

SYNDICATION SPLITS – STRAIGHT RETURNS



pa·ri pas·su

/,pärē 'päsōo/

Pari-passu is a Latin phrase meaning "equal footing" that describes situations where two or more assets, securities, creditors or obligations are equally managed without preference.

Straight Returns –

- ❖ Set ratio where investor and sponsor share the returns with no prefs.
 - ❖ 70/30, 80/20, 85/15...
- ❖ Sponsor makes amount specified in split ratio (30, 20 or 15)

SYNDICATION SPLITS – RETURNS WITH PREF



1 PREFERRED with Catch Up

- ❖ 70/30 split with 8 Pref is most common.
- ❖ Investor gets first 8% each year, but sponsor is “made whole”

2 PREFERRED with NO Catch Up

- ❖ Same 70/30 split with 8 Pref where first 8% goes to investor
- ❖ Sponsor makes 30% of the profits AFTER the 8%

For any model, HURDLES can be added

- ❖ If deal achieves specified goal, ratio changes above that
 - ❖ After 20% hurdle, any profits above that is split is 50/50 – applies on sale as bonus to sponsor for exceeding numbers

SYNDICATION SPLITS – COMPARING ALL THREE

	Pari-Passu Straight Returns 70/30	70/30, 8% Pref w Catch Up	70/30, 8% Pref w No Catch Up
Sample Returns for \$100	\$100	\$100	\$100
8% pref for 5 years	N/A	\$40	\$40
Profit after Pref	\$100	\$60	\$60
Profit to LP after Pref	N/A	\$30	\$42
Total Profit to LP	\$70	\$70	\$82
Total Profit to GP	\$30	\$30	\$18
<p><i>Go to Link 23 in Bootcamp Portal sheet – Resources excel file : Syndication Splits</i></p>	<p>GP gets whatever % was established as their share : pari passu</p> <p>More common splits for this model are 80/20 or 85/15 for the current deals to hit attractive returns for investors</p>	<p>8% pref x 5 years= \$40 to LP. Then the remaining profit of \$60 is split so that the total to GP is 30% of profits, assuming project has profits above the pref.</p>	<p>8% pref x 5 years= \$40 to LP. After pref, LP gets additional \$42 which is 70% of \$60 profits. The \$18 remainder of profits goes to GP because there is no true up</p>