

PASSIVE INVESTOR DEAL ANALYSIS CHECKLIST





WHAT TO CHECK BEFORE YOU INVEST

1. SPONSOR

- a. Have they purchased in this market?
- b. Who is ultimately responsible for completing business plan?
- c. Successful track record?

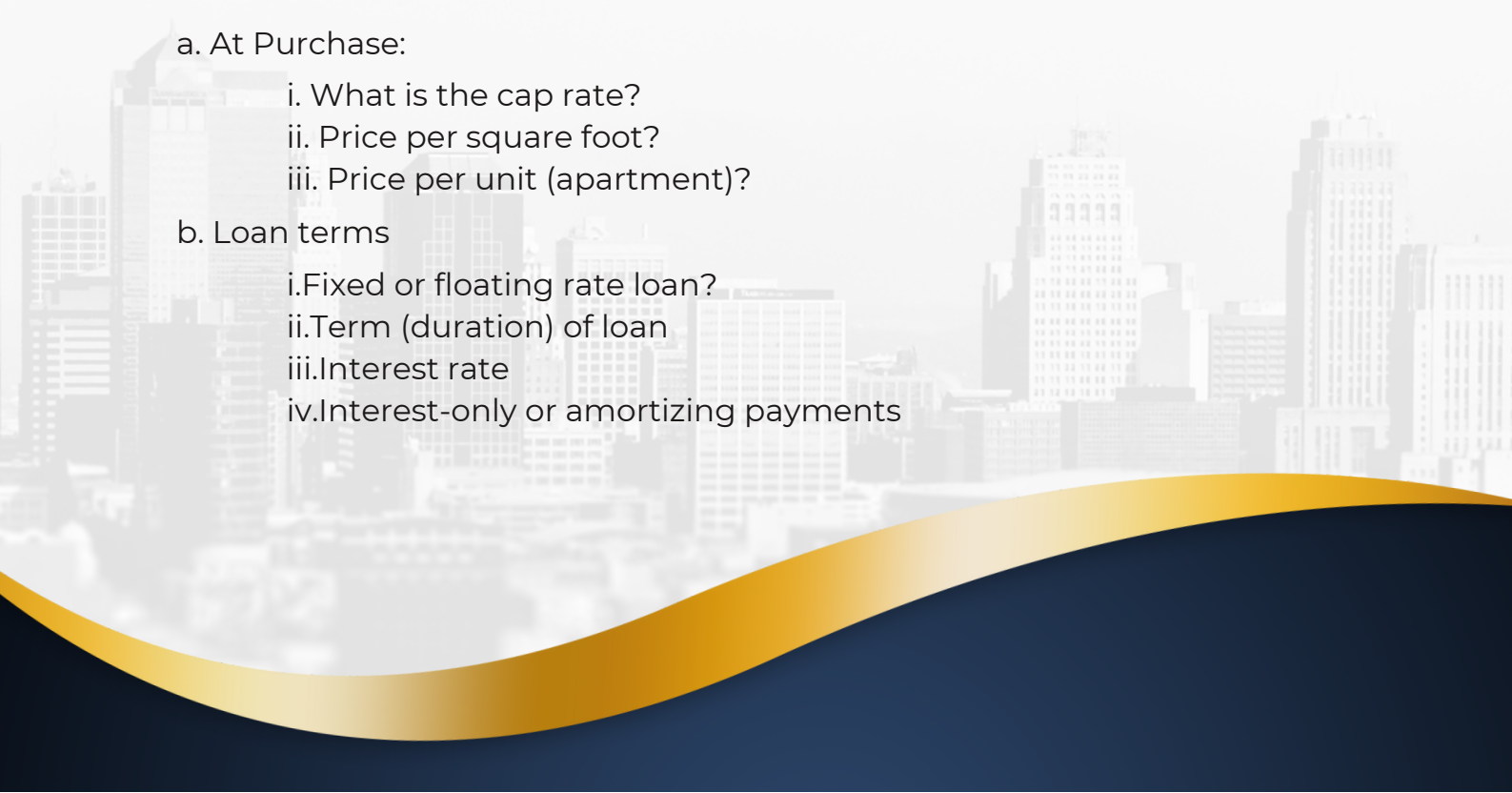
2. MARKET

- a. Population and job growth
- b. Low vacancy rates

3. DUE DILIGENCE PROCESS

- a. Sponsors have a thorough due diligence process
- b. Unit inspections, system inspections, lease audit, etc.

4. UNDERWRITING

- a. At Purchase:
 - i. What is the cap rate?
 - ii. Price per square foot?
 - iii. Price per unit (apartment)?
 - b. Loan terms
 - i. Fixed or floating rate loan?
 - ii. Term (duration) of loan
 - iii. Interest rate
 - iv. Interest-only or amortizing payments
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c. Income

- i. What are rents now?
- ii. What are rents expected to be in the future?
- iii. Is the annual growth rate of total income reasonable?

d. Expenses

- i. Property taxes are adjusted for the new sales price
- ii. Property insurance is based on an actual quote
- iii. Other expenses are based on historic performance and/ or a property manager's budget

e. Capital Improvements

- i. How large is the scope of work? Is budget realistic?
- ii. Is there adequate margin for the amount of work?
- iii. Who will oversee the capital improvements?

f. Future sales price

- i. What is the anticipated market cap rate at time of sale?
- ii. Is there industry data to support the future cap rate?

5. BUSINESS PLAN

- a. Length of ownership
- b. Sell or refinance

- c. Distribution frequency
- d. Passive losses for tax mitigation

6. FINANCIAL METRICS

- a. First year cash flow
- b. Average annual cash flow
- c. Average annual return (AAR)

- d. Total Return
- e. Internal Rate of Return (IRR)

7. WATCH OUT FOR:

- a. Any preferred equity? They will have priority on paybacks.
- b. Aggressive rent growth
- c. Too low of expenses
- d. Inadequate capital for business plan scope