

INVESTOR RESOURCE

Real Estate Investment Evaluation Framework

Ensuring Pro Forma = Reality — A 10-Point Due Diligence Guide for Commercial Property Investors

01

Underwrite to Reality

Most deals fail at underwriting, not execution. Stress-test assumptions — never accept broker projections at face value.

- Income: Use in-place comps, not aspirational rents
- Vacancy: Apply 8–12% effective vacancy
- Expenses: Normalize to operating history
- CapEx: Always include recurring reserves
- Taxes: Use post-purchase anticipated rate
- Management: Include 3–5% management fee

"If the deal only works at seller assumptions, it doesn't work."

02

Validate the Income Stream

Real estate value is a derivative of income durability. Analyze tenant quality and lease structure.

- Creditworthiness (national vs. local tenants)
- Lease term remaining (WALT)
- Rent-to-sales ratios for retail
- Expense recoverability & escalations
- Termination options / co-tenancy clauses

03

Market Validation

You are buying a position in a local economic ecosystem. Analyze population growth, traffic counts, competing supply, and retail demand gaps.

Reality Check

If rent assumptions exceed nearby comparables, you are speculating — not investing.

04

Conservative Cash Flow Model

Run three scenarios: Base Case, Downside Case, and Upside (context only).

- Cash-on-cash return
- DSCR > 1.25 preferred

06

Physical Due Diligence

Unexpected capital costs destroy projected returns. Inspect thoroughly.

- Roof, structure, HVAC systems
- Parking lot and drainage
- Environmental risks
- Deferred maintenance

Tie CapEx directly to rent growth assumptions.

07

Execution Realism

A deal is only as good as your ability to execute it.

- Is lease-up realistic given market demand?
- Are tenant improvement costs properly budgeted?
- Do you have leasing relationships or broker support?

Common Failure Point

Overestimating speed of lease-up and underestimating tenant concessions.

08

Exit Strategy

You make your money on the buy — but realize it on the sell.

- Exit cap should be \geq entry cap unless strong growth story
- Validate buyer pool depth for asset type/location
- Confirm timing flexibility if market softens

"A 1% increase in exit cap can reduce value by 10–20%."

09

Alignment of Interests

If partners, sponsors, or brokers are involved, ensure co-investment, review fee structures, and confirm incentives align with long-term performance — not just closing the deal.

10

Final Go / No-Go Test

- Works under conservative assumptions

- Break-even occupancy
- IRR & exit cap sensitivity (± 100 bps)

"If downside still preserves capital — proceed."

05

Debt Structure

Many deals fail due to financing mismatch, not operations.

- Fixed vs. variable rate exposure
- Loan term vs. business plan duration
- Refinance risk at maturity
- Stress test at higher interest rates

- Strong, durable income stream
- Market fundamentals support rents
- Financing is resilient to rate changes
- CapEx risks are identified and funded
- Downside scenario preserves capital

Simple Principle: If everything has to go right for the deal to work, it's the wrong deal.