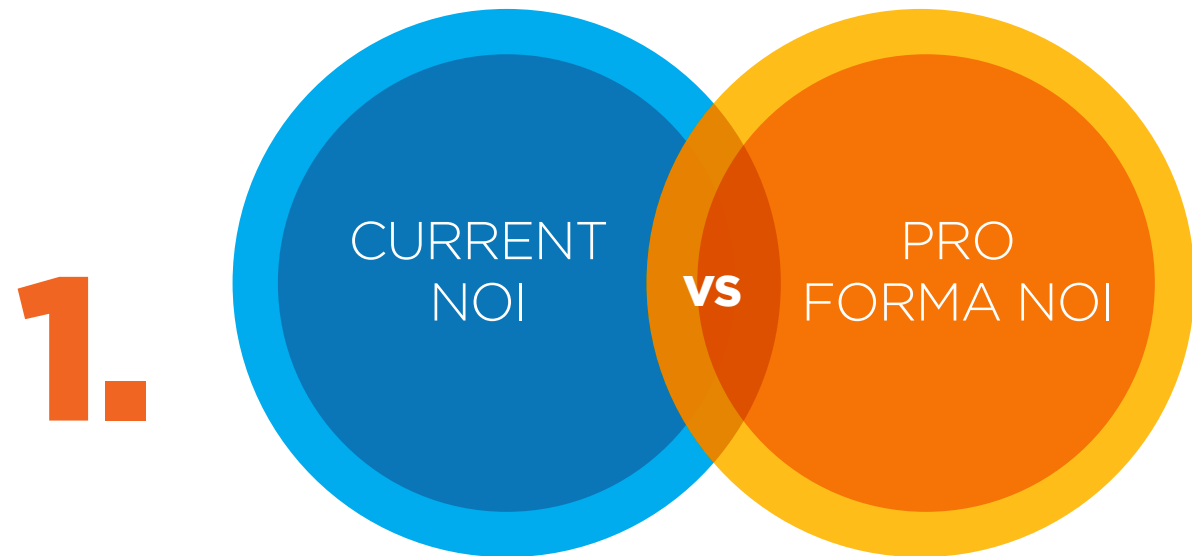


COMMERCIAL REAL ESTATE TRIAGE FINANCIER

Tips, Tricks and Traps: How To Analyze Any Commercial Deal In Less Than 90 Seconds



Most brokers will do an across the line increase in rents (especially for multi-family) of 10%. In the real world, it's simply not possible to do this, especially during hard economic times.

Look at the **OCCUPANCY**. This is the easy test to tell if the asset will have a chance of even approaching its Pro Forma form a back-of-the-envelope standpoint.

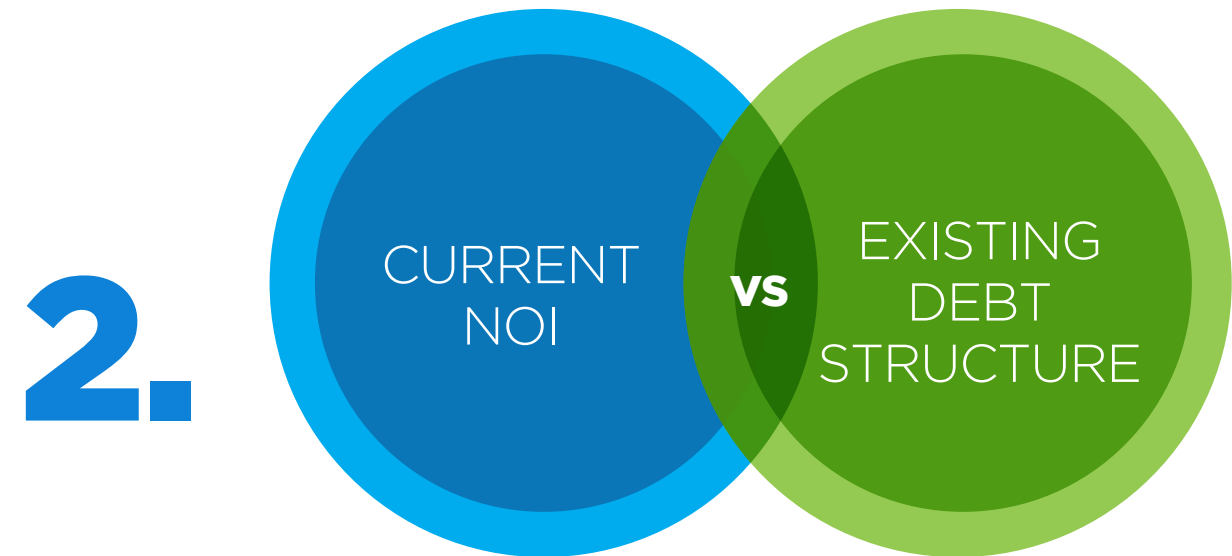
EXAMPLE:

If we look at the example below, even in a perfect world if we could get 100% occupancy, the Pro Forma NOI could never be more than \$200,000.

	Occupancy	Current NOI	Pro Forma NOI
STATED BY BROKER	50%	\$100,000	\$300,000
REAL WORLD SCENARIO	100%	\$100,000	\$200,000

So getting a Pro Forma of \$300,000 would be practically impossible to get.

Many investors have bought off of the Pro Forma only and got slaughtered shortly thereafter. Buying or valuing off of the Pro Forma is **overpaying** for the asset.



On any income producing property, it's the income which drives the value of the property. Some sellers or brokers will value the property off of the **Pro Forma**. The reasons for this are not as obvious as they seem at first.

Most of the time, the Pro Forma will be manufactured to mask the fact that the property may be **overleveraged**.

EXAMPLE:

Depending on the market that the asset is located in, a **CAP RATE** will be applied to make an apples-to-apples comparison. In this example, we're going to use a 10% cap rate to apply to the Current and Pro Forma NOIs.

	Cap Rate Used	Value	Asking Price	Existing Debt
CURRENT NOI	10%	\$1,000,000	\$3,000,000	\$3,000,000
PRO FORMA NOI	10%	\$3,000,000	\$3,000,000	\$3,000,000

In this example, we see that the asking price by the seller or broker is manufactured by creating a Pro Forma high enough to create a perceived value to justify an asking price with the hope the buyer won't notice that the property is overleveraged and pay the Pro Forma price.



DON'T BE FOOLED! Many sellers are locked into CMBS loans that are assumable. Meaning they must be assumed or they have a nasty prepayment penalty. Assuming a loan on a property that is overleveraged is the same as overpaying for it and you'll probably be stuck with it.

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