Sequence of Underwriting

If we are unable to obtain actual operating statements or rent rolls from the property owner:

- We generate our projections from scratch.

- Based on our market, sub-market and specific property knowledge, we make an estimate of income, expenses, replacements and net operating income.

- We take into consideration the appropriate market street rents for the property, vacancy for the sub-market, move-in, renewal and other concessions attributable to the sub-market, estimate the loss or gain-to-old leases of the property, factor in non-revenue units and bad debt (based on the condition of the property, resident profile, and location of the asset).

- Other Income is also estimated. This component is over-looked by many out-of-state buyers who do not understand the idiosyncrasies of the Arizona market, and thus, understate the property's income potential.

- We then use our database, and the experience of the client's third-party management company to establish the property's appropriate rent levels, vacancy, and concessions in its sub-market. We estimate the labor, vendors and materials, utilities (which vary greatly by city), promotion, administration, third-party property management and asset management fees, insurance, security service needs, homeowner's association fees, cable television expenses, phone system expenses, and any other unusual expenses attributable to the specific property.

- We also use our data link to the County Recorders office to determine the debt service, and our data link to the County Treasurer's Office to determine current property taxes.

- Furthermore, we consult with our real estate tax attorney to determine what the impact of the acquisition may have on future valuations by the County Assessor's Office. Many out-of-state buyers are unaware of the significance the purchase price may have on real estate taxes.

- We determine what value-added investments may be appropriate for the property. We adjust the market rents to reflect the impact of the value-added investment.

If we have actual operating statements, we prepare an analysis which trends the actual operating results for the prior two years, and the current year annualized. This analysis of the owner's actual operating performance is then compared to our projected cash flow for the first twelve months after the close of escrow.

This preliminary analysis tells us if we should proceed with our more in depth underwriting. We are looking for value added increments to net operating income due to below market income and above market expenses. If the only upside for a property is general market improvement, we will pass on the property because returns will not meet our clients' parameters.

If the property passes this first litmus test, and we sense the property may be available, we will proceed with a more detailed underwriting.

This underwriting analysis results in a five-page report containing, among other things:

- Year 1 operating projection.
- Five year cash flow forecast.
- Acquisition cost summary.
- Investment requirement, including the cost of value added enhancements.
- Debt assumptions (existing or new).
- Cash on cash returns and IRR.
- Resale projection.
- Real estate tax projections.

Our underwriting estimates our client's yields at the Seller's full purchase price. We then develop a sensitivity analysis for returns tied to declining purchase prices. We consult with our client to identify the maximum price to be offered to the property owner.

"Deal Killers" is a term used by many of the Selling Brokers to describe our role. However, our honesty and integrity is much more important to us than "booking the sale".

Our client's best interest is primary.