LESSON TWELVE: CONCLUSION & LOOKING AHEAD

1.1 CONCLUSION

Stabilized real estate properties are an accepted asset class for investment diversification. The safest assets are those with the following characteristics:

1. Macrolocation: A large, dynamic market (New York, Washington, D.C., San Francisco, Chicago)
2. Microlocation: Well located in the submarket
3. Newer construction
4. Excellent tenant credit quality, with long-term leases

Stabilized investors are not bargaining on surprises. With knowledge, these investments can outperform stocks and bonds. Yet, the intelligent investor must understand the key components in value added investing:

- Operating history
- Rent roll
- Cash on cash return (the cap rate)
- Leveraged cash on cash return
- Operating expense structure (pass through & stops)
- Leverage structure (underwritten NOI)
- Market/demand drivers

So, do we have a deal or no deal? Below is a review of how to determine if you have the right deal to move forward with.

DEAL CALCULUS

HOW TO TELL IF YOU HAVE A DEAL OR NO DEAL

Qs

Qualified Sponsor.

He or she has experience and a verifiable Transactional Resume (aka a "Deal Sheet").

Has a net worth, or strong experience.

Is making a meaningful equity contribution.

Sponsor / Operator is local to the asset.

+

Qo

Strong basis at buy.

The numbers make sense.

Good geographic market.

Asset is desirable and bankable (One of the "Four Food Groups").

Narrative is clear and understood.

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Deal

Exit strategy is thoughtfully defined and clear.

There are multiple plans to execute the key event(s).

There is a business plan that outlines what needs to be done, when and where.