



## 2016 Bank Study Project Class of 2017

# REAL ESTATE FINANCING Crawford Pike

**NOTES:**

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Please attach the **Junior Cover Sheet – Class of 2017** from <http://www.gsblsu.org/students-4/>.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips.

**Complete and mail by November 15, 2016**

**Graduate School of Banking at LSU**

4273 Highland Road

Baton Rouge, LA 70808-4541

225-766-8595

**Real Estate Financing  
2016 Session  
Crawford Pike**

**Course Project:** Please evaluate the investment opportunity described below, which will be financed with a combination of debt and equity.

**Investment Overview:** It is November and while visiting LSU for a football game you are introduced to an investor who has approached you in search of debt financing to acquire a new 225 unit multifamily project that caters to students from LSU. The property contains:

- 25 one bedroom units which rent for \$600 per month. Average of 480sf.
- 50 two bedroom units which rent for \$900 per month. Average of 850sf.
- 150 three bedroom units which rent for \$1,200 per month. Average of 1,100sf.

The property has just completed its initial lease up and is physically 8% vacant. The property's economic vacancy rate is 10%. Annual operating costs and capital reserves are anticipated to be \$5,000 and \$300 per unit foot respectively. The property management has represented that they anticipate \$100/unit/month in other income. The purchase price for the asset is \$25,000,000.

**Bank Appetite:** Your bank has a strong appetite for multifamily lending and you're very interested in pursuing the loan opportunity. Your bank's lending standards restrict multifamily finance to 80% LTV and an amortizing 1.25x DSCR based upon an artificial stress rate of 6.5%. Your bank allows multifamily financing to be provided on a maximum 30 year amortization. Your bank makes all multifamily loans floating at Prime (Assume 3%).

**Investor Request:** The real estate investor has indicated that maximizing loan proceeds is their primary concern with the arrangement of the debt. They have also requested 2 years of interest only financing at the outset of the loan.

**Assignment:** Please assess the merits of the investment by answering these questions:

- 1) Calculate the going-in capitalization rate for the investment.
- 2) What is the rent per sf for each unit type?
- 3) What is the property's Gross Potential Rental Income?
- 4) What are some of the factors that can contribute to the difference between the physical vacancy and the economic vacancy?
- 5) What is the property's Effective Gross Income?
- 6) What is the property's expense ratio? Is this reasonable for a property of this type?
- 7) What is the property's NOI?
- 8) What is the maximum available loan from your bank?
- 9) What is the actual DSCR at the maximum available loan assuming that you are able to provide the client with interest only?
- 10) What is the debt yield for this property assuming the maximum allowable loan is provided?
- 11) What special considerations should be considered when underwriting this student housing scenario?
- 12) What factor should the timing of the request have on your underwriting?