GRADUATE SCHOOL of BANKING
AT LOUISIANA STATE UNIVERSITY

2017 Bank Study Project
Class of 2018

COMMERCIAL REAL ESTATE FINANCING
Cal Evans

NOTES:

1. Please use 8 l/2" x 11" paper (or paper folded to that size).
2. Attach the **Junior Cover Sheet – Class of 2018** from http://www.gsblsu.org/students-4/ as the first page of your project.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips or any kind of folder or binder.

Complete and mail by November 15, 2017

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Commercial Real Estate Finance
2017 Session
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Course Project: Please evaluate the investment opportunity described below, which will be financed with a combination of debt and equity.

Investment Overview: One of your better customers walks into your office one day to discuss the acquisition of a 200 bedroom Class A multifamily complex in Nashville, TN called the Cash Apartments. A pro forma is presented to you that details the financials of the facility, which has a unit mix of:

- 25 1BR/1BA units which rent for $900 per month; average area = 600 SF.
- 50 2BR/2BA units which rent for $1,125 per month; average area = 900 SF.
- 125 3BR/3BA units which rent for $1,320 per month; average area = 1,100 SF.

According to the pro forma, the property is stabilized and currently has a physical occupancy level of 92%. Collections and concessions have averaged 1% per category since stabilization. Annual operating costs include a 5% management fee, $3/SF for maintenance and operations, $1/SF for real estate taxes, and $0.25/SF for insurance; replacement reserves are estimated to be $300 per unit. The property management has stated that $100/unit/month in other income is normal.

Bank Appetite/Investor Request: Your bank knows that there may be issues with multifamily oversupply so you are cautious and you will underwrite accordingly. Your bank's lending standards restrict multifamily finance to 75% LTV and an amortizing 1.25x DSCR based upon an interest rate of 4%. Your bank allows multifamily financing to be provided on a maximum 20 year amortization and a 5 year term. The real estate investor has indicated that maximizing loan proceeds is their primary concern with the arrangement of the debt, and their required return on equity is 10%.

Assignment: Use the worksheet to answer the following questions-only the yellow cells require your input. The protection password is LSU if you want to go back and use spreadsheet after this project.

1. Knowing what you know about market trends for apartments, what about this deal may cause you some concern?
2. Calculate the going-in capitalization rate using the Band of Investment method; what is the estimated value via direct capitalization?
3. What is the rent per SF for each unit type?
4. What is the property's Gross Potential Rental Income?
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 are the actual DSCR and Debt Yield utilizing the pro forma numbers and the bank's usual terms as stated?
10. What are the actual DSCR and Debt Yield utilizing the pro forma numbers and a stressed rate of 7%? Assume the same term and amortization.
11. What are the actual DSCR and Debt Yield utilizing the pro forma numbers (with a 10% discount on Gross Potential Rent) and a stressed rate of 7%? Assume the same term and amortization.