Multifamily Property Underwriting Analysis Template

Required Documents Checklist

- Trailing 12 Months (T12) Income Statement
- Current Residential Rent Roll
- Commercial Rent Roll (if applicable)
- Market Comparables Report (CoStar, Yardi Matrix, or similar)
- Aged Receivables Report (optional but recommended)
- Property Appraisal (optional if available)

Analysis Framework

CRITICAL T12 ANALYSIS RULES

WARNING: Avoid Double-Counting in T12 Statements

- Identify Column Structure First: Check if there are subtotal or total columns
- Only Sum Monthly Columns: Typically columns representing Jan-Dec or similar monthly periods
- Exclude Total/Subtotal Columns: Do not include columns labeled "Total", "YTD", "Annual", etc.
- Verify Row Types: Distinguish between detail rows and subtotal/total rows
- Cross-Check Totals: Calculated totals should match reported totals within reasonable rounding

CRITICAL: Identifying & Handling T12 Anomalies

- Review EVERY Month for Anomalies:
  - Unusually low/high revenue or expense months
  - Months with $0 or near-zero activity
  - Significant spikes or drops (>25% variance from adjacent months)
  - Missing data or incomplete reporting
- Acceptable Anomalies (Do NOT require adjustment):
  - Real Estate Taxes: Often paid quarterly, semi-annually, or annually
  - Insurance Premiums: Typically paid annually or semi-annually
  - Other known periodic expenses: HOA fees, certain licenses, etc.

- These create expected "lumpy" patterns and should be annualized normally
- When Anomalies Are Found:
  - FLAG them prominently in the analysis
  - Calculate both "As Reported" and "Adjusted" metrics
  - For adjusted metrics, use shorter periods (T6, T4, T2) excluding anomalous months
  - TERMINOLOGY: Use "Adjusted TX Analysis" NOT "Stabilized TX Analysis"
  - EXPLICITLY STATE when using shortened periods (e.g., "Using Adjusted T6 analysis due to...")
  - EXPLAIN WHY the adjustment was made
- Identify Transition Periods:
  - Note if property appears to be in lease-up
  - Flag if property was recently acquired/changed management
  - Identify stabilization patterns (e.g., "Operations normalized from Month X forward")
- Present Both Views:
  - "T12 As Reported": Full data including anomalies
  - "Adjusted T[X] Analysis": Clean months only
  - Clearly label and explain the difference
- Exceptions for Adjusted Analysis:
  - Real Estate Taxes: ALWAYS use full T12 data (annualized if needed)
  - Insurance: ALWAYS use full T12 data (annualized if needed)
  - These items have naturally lumpy payment patterns throughout the year
  - Using shortened periods would miss critical payments and understate expenses
  - When presenting Adjusted Analysis expenses, note: "Taxes and Insurance based on full T12"
- Flagging Large One-Time Expenses:
  - When encountering anomalies such as large, one-time or otherwise infrequent expenses that represent >3% of total OpEx, these should be flagged for consideration
  - Include these anomalies in the T12 expense burden unless otherwise directed to have them adjusted or removed

MANDATORY VERIFICATION PROCEDURES

- Cross-Check All Calculations:
  - When summing line items, ALWAYS verify against "Total" rows in the T12

    - If manual sum ≠ reported total, identify and explain the difference
    - Document which total you're using and why

- Revenue Verification:
    - Identify revenue items by NAME, not codes: Look for terms like "Potential Rent", "Market Rent", "Vacancy", "Concessions", "Bad Debt", etc.
    - CHECK SIGNS: Gain/Loss to Lease can be positive OR negative - verify the sign
    - Separate line items: Never combine concessions and bad debt - report separately
    - For IN-PLACE Revenue Analysis: Use T12 reported GPR figures (do not calculate from market rents)
    - Net Rental Income Formula: GPR + Vacancy + Concessions + Bad Debt (all typically negative)
    - Other Income: List ALL components separately, including any bad debt on other income
    - Always reconcile to T12 totals: Your calculated total MUST match the T12 "Total Income" row
    - If totals don't match: List every single revenue line item to find what's missing
    - Show the full calculation: list each component with its actual value
    - Commercial Income: Include all commercial items (rent, CAM, recoveries, etc.)
- Revenue Calculation Structure:

```
RENTAL INCOME:
Gross Potential Rent (from T12)    $X,XXX
+ Vacancy (negative)            $(X,XXX)
+ Concessions (negative)          $(X,XXX)
+ Bad Debt - Rent (negative)       $(X,XXX)
= Net Rental Income             $X,XXX

OTHER INCOME:
[List each item separately]        $X,XXX
- Bad Debt - Other Income         $(X,XXX)
= Total Other Income             $X,XXX

COMMERCIAL INCOME:
[List each item]                $X,XXX
= Total Commercial Income         $X,XXX

TOTAL INCOME                   $X,XXX
```

Verify this matches T12 reported total!

- MANDATORY: Match T12 Subtotals:
  - DO NOT CREATE YOUR OWN CATEGORIES - use the T12's structure
  - If T12 shows "Other Income" subtotal, match that EXACT total
  - Check what items are included/excluded from each subtotal
  - Common structure variations:
    - Parking may be separate from "Other Income"
    - Internet/Cable may be separate
    - Bad Debt on Other Income may be in rental section
  - ALWAYS VERIFY: Your subtotals MUST match T12 subtotals
  - If they don't match, list every line item to find what's included/excluded
  - State clearly: "Other Income per T12: $XXX (verified)"
- Expense Verification:
  - Identify expenses by CATEGORY NAME: Payroll, Utilities, Maintenance, Insurance, Taxes, etc.
  - Look for common expense categories regardless of coding system
  - Compare to "Total Expenses" row
  - Check for subtotal categories (e.g., "Manager Controlled", "Asset Manager Controlled", "Operating Expenses")
  - Ensure all expense categories are captured
- NOI Verification:
  - Calculate: Total Income - Total Expenses
  - Compare to T12 reported NOI
  - If different, identify why and document
- Documentation Requirements:
  - Show your calculation method (e.g., "8-month expenses per Total Expenses row: $1,027,376")
  - Display full formulas with actual numbers, not just results
  - If discrepancies exist, explain them
  - State which figures are from T12 totals vs. manual calculations
  - For shortened periods (T8, T6, etc.), show the exact months included

Data Source Hierarchy

When gathering information, use the following priority:

1. Property Data (T12, Rent Roll, Aged Receivables Reports, etc.)
2. Market Comparable Data (when available)
3. Property Offering Memorandums, Appraisals, etc. (when available)

DO NOT use Industry Standards or Professional Judgment AT ANY TIME

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1. Property Overview & Current Status

Property Information to Gather:

- Property Name
- Address & Submarket
- Total Units (verify across all documents)
- Year Built / Renovation Date
- Unit Mix (# and % by bedroom type)
- Average Unit Sizes by Type
- Current Physical Occupancy
- Current Economic Occupancy

Revenue Analysis Structure:

```
Gross Potential Rent (GPR) - from T12
- Less: Vacancy Loss
- Less: Concessions
- Less: Bad Debt
= Net Rental Income

Plus: Other Income
  - Application/Admin Fees
  - Pet Fees/Rent
  - Amenity/Service Fees
  - Late Fees
  - Other Miscellaneous

Plus: Commercial Income (if applicable)
= Total Effective Income
```

Key Metrics to Calculate:

- Physical Vacancy Rate = Vacant Units ÷ Total Units
- Economic Occupancy = 1 - (Vacancy Loss ÷ GPR)
- Bad Debt % = Total Bad Debt ÷ Gross Potential Rent
- Other Income Ratio = Other Income ÷ Total Residential Income

Average Rent Analysis:

Create table by unit type showing:

- Number of units
- Occupied units
- Average in-place rent
- Average square footage
- Rent per square foot

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2. Operating Expense Analysis

Expense Categories to Track:

- Payroll & Benefits
- Administrative
- Marketing & Advertising
- Maintenance & Repairs
- Utilities
- Insurance
- Property Taxes
- Management Fees
- Other Operating

CRITICAL RULE: Missing Expense Categories

When analyzing T12 operating expenses, if common expense categories show $0 or are missing entirely:

- Still include them in the expense table with $0 value
- Add a warning note (⚠️) next to any $0 major expense category

- Common categories that should ALWAYS be shown even if $0:
  - Property Taxes (critical - may indicate exemption or delinquency)
  - Insurance (required by lenders - if $0, major red flag)
  - Management Fees (if $0, may be self-managed)
  - Utilities (if $0, may be tenant-paid)
- Document in notes section why expense might be $0

T12 Operating Expenses by Category

Present expenses in a detailed breakdown showing both line items and category subtotals:

Expense Category	Annual Amount	$/Unit	% of Total
Payroll & Benefits			
Manager	$XXX	$XXX	X.X%
Assistant Manager/Office	$XXX	$XXX	X.X%
Leasing Personnel	$XXX	$XXX	X.X%
Maintenance Supervisor	$XXX	$XXX	X.X%
Maintenance Technician	$XXX	$XXX	X.X%
Groundskeeper	$XXX	$XXX	X.X%
Overtime	$XXX	$XXX	X.X%
Payroll Taxes & Benefits	$XXX	$XXX	X.X%
Subtotal Payroll	**$XXX**	**$XXX**	**XX.X%**
Administrative			
Office Supplies	$XXX	$XXX	X.X%
Bank Fees	$XXX	$XXX	X.X%
Legal Fees	$XXX	$XXX	X.X%
Professional Fees	$XXX	$XXX	X.X%
Subtotal Admin	**$XXX**	**$XXX**	**X.X%**
Marketing			
Advertising	$XXX	$XXX	X.X%
Marketing/Leasing	$XXX	$XXX	X.X%
Subtotal Marketing	**$XXX**	**$XXX**	**X.X%**
Utilities			
Electric	$XXX	$XXX	X.X%
Gas	$XXX	$XXX	X.X%
Water/Sewer	$XXX	$XXX	X.X%
Trash	$XXX	$XXX	X.X%
Subtotal Utilities	**$XXX**	**$XXX**	**XX.X%**
Maintenance & Repairs			
Unit Turns	$XXX	$XXX	X.X%
Supplies	$XXX	$XXX	X.X%
Repairs	$XXX	$XXX	X.X%
Contracts	$XXX	$XXX	X.X%
Subtotal R&M	**$XXX**	**$XXX**	**XX.X%**
Insurance	$XXX	$XXX	XX.X%

Expense Category	Annual Amount	$/Unit	% of Total
Management Fee	$XXX	$XXX	X.X%
Property Taxes	$XXX	$XXX	X.X%
Total Operating Expenses	**$XXX**	**$XXX**	**100.0%**

Operating Expense Ratio: XX.X% of Total Revenue

Key Metrics:

- Total Operating Expenses
- Operating Expense per Unit
- Operating Expense Ratio = OpEx ÷ Effective Gross Income
- Operating Margin = 1 - (Total Expenses ÷ Total Revenue)

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3. Net Operating Income (NOI)

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Total Effective Income
- Less: Total Operating Expenses
= Net Operating Income (NOI)
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4. Market Rent & Loss to Lease Analysis

Rent Comparable Selection Criteria:

- Year built: ±10 years OR recently renovated
- Location: Same submarket or similar quality

Detailed Unit Type Comparison

Organize rent comparables by unit type, showing subject property units first, followed by market comparables:

One Bedroom Units

Property	Distance	Year Built	Unit Count	Avg Size	Avg Rent	$/SF
Subject - [Size] SF	Subject	[Year]	[Count]	[Size]	$[Rent]	$[$/SF]
[Comp Property]	[X.XX mi]	[Year]	[Count]	[Size]	$[Rent]	$[$/SF]

Market Analysis - One Bedroom:

- Subject Average: $[XXX] ($[X.XX]/SF)

- Market Average: $[XXX] ($[X.XX]/SF)
- **Loss to Lease: $[XXX]/unit ([XX.X]%)**

Two Bedroom Units

Property	Distance	Year Built	Unit Count	Avg Size	Avg Rent	$/SF
Subject - [Size] SF	Subject	[Year]	[Count]	[Size]	$[Rent]	$[$/SF]
[Comp Property]	[X.XX mi]	[Year]	[Count]	[Size]	$[Rent]	$[$/SF]

Market Analysis - Two Bedroom:

- Subject Average: $[XXX] ($[X.XX]/SF)
- Market Average: $[XXX] ($[X.XX]/SF)
- **Loss to Lease: $[XXX]/unit ([XX.X]%)**

(Continue for all unit types)

Summary Loss to Lease Analysis

Unit Type	Units	Current Rent	Market Rent	Loss to Lease	Annual Impact
1BR	[XXX]	$[XXX]	$[XXX]	$[XXX]	$[XXX,XXX]
2BR	[XXX]	$[XXX]	$[XXX]	$[XXX]	$[XXX,XXX]
3BR	[XXX]	$[XXX]	$[XXX]	$[XXX]	$[XXX,XXX]
Total	**[XXX]**				**$[XXX,XXX]**

Loss to Lease Calculation:

For each unit type:

- Market Rent - In-Place Rent = Loss to Lease ($)
- Loss to Lease % = Loss to Lease ($) ÷ Market Rent
- Annual Impact = Loss to Lease ($) × Number of Units × 12

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5. Sales Comparable Analysis

Sales Comp Selection Criteria:

- Sale date: Within past 24 months
- Property size: ±50 units from subject
- Year built: ±10 years OR similar quality
- Location: Same market

Sales Comp Summary Table:

Property	Units	Sale Date	Price	$/Unit	Cap Rate

Note: Include Cap Rate column only if cap rate data is provided in sales comparables. If not available, exclude this column and note "Cap rate data not provided in sales comparables"

Key Metrics to Extract:

- Average Price per Unit
- Price per Unit Range (Low/High)
- Average Cap Rate (if available)
- Cap Rate Range (if available)

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6. Stabilized Value Analysis

Stabilized NOI Projection

Revenue Assumptions:

- **Occupancy:** Use the lesser of 95% standard stabilized assumption or market comparable occupancy data (if available). When in doubt, use 95% standard stabilized occupancy unless specified otherwise
- **Market Rents:** Per unit type analysis in Section 4. If market rents are not available, note this in the analysis and use in-place rental data as a placeholder
- **Bad Debt:** If T12 shows bad debt greater than 3% of GPR, use the T12 percentage. If T12 shows bad debt below 3% of GPR, use 3% as standard assumption unless specified otherwise
- **Other Income:** Use historical T12 figures (not calculated as % of revenue)
- **Operating Expenses:** DO NOT MAKE ANY ADJUSTMENTS - use T12 operating expenses as-is

Revenue Formula Order:

1. Potential/Market Rent ± Gain/Loss to Lease = GPR
2. GPR + Vacancy + Concessions + Bad Debt = Net Rental Income

Note: "Potential/Market Rent" comes from rent comparables and is only relevant for stabilized income calculations, not for understanding in-place T12 revenues.

In-Place vs. Stabilized Comparison

Line Item	In-Place (T12)	Stabilized	Variance
Revenue			
Gross Potential Rent	$[XXX,XXX]	$[XXX,XXX]	$[XXX,XXX]
Vacancy Loss	$([XXX,XXX])	$([XXX,XXX])	$[XXX,XXX]
Bad Debt	$([XXX,XXX])	$([XXX,XXX])	$[XXX,XXX]
Net Rental Revenue	$[XXX,XXX]	$[XXX,XXX]	$[XXX,XXX]
Other Income	$[XXX,XXX]	$[XXX,XXX]	$[XXX,XXX]
Total Revenue	**$[XXX,XXX]**	**$[XXX,XXX]**	**$[XXX,XXX]**
Operating Expenses			
Total Operating Expenses	$[XXX,XXX]	$[XXX,XXX]	$0
Management Fee (if % based)	[Note if included above]	[Note if included above]	$0
Total OpEx	**$[XXX,XXX]**	**$[XXX,XXX]**	**$0**
Net Operating Income	**$[XXX,XXX]**	**$[XXX,XXX]**	**$[XXX,XXX]**

*Note: Include any relevant notes about revenue components. For commercial income, use T12 and/or commercial rent roll unless specifically told otherwise.

Key Stabilization Metrics:

- Revenue Growth: [XX.X]%
- Expense Growth: 0.0% (no adjustments made)
- NOI Growth: [XX.X]%
- Stabilized Expense Ratio: [XX.X]%

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7. Purchase Price Recommendation

Method 1: Sales Comparable Method

- Average $/Unit from Comps × Total Units = Comp-Based Value
- Apply ±10% range based on property condition

Method 2: Income Approach (In-Place)

- Current NOI ÷ Market Cap Rate = Income-Based Value

Method 3: Income Approach (Stabilized)

- Stabilized NOI ÷ Market Cap Rate = Stabilized Value

Note: If market cap rates are not available from sales comparables, note this limitation.

8. Key Assumptions & Standards

Standard Assumptions:

- Stabilized Occupancy: Lesser of 95% or market comparable occupancy
- Bad Debt in Stabilized: Greater of 3% or T12 actual percentage
- Other Income: Always based on T12 reported "Other Income" items specifically (does not scale with stabilized rents)
- Management Fee: 4% of EGI
- Replacement Reserves: Not calculated as part of In-Place or Stabilized NOI
- Insurance: Always based on T12 figures
- Stabilization Period: 12-24 months

Valuation Rules:

- Always use greater of in-place or market rents for stabilized value
- Cap rates and theoretical sale price per unit should reflect property quality and market conditions
- Provide two terminal valuation estimates – one based on cap rate, and the other based on sales price per unit
- Adjust for property-specific risks (age, location, condition)
- Consider time value for unstabilized properties

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9. Financial Metrics Quick Reference

Key Investment Metrics Summary

Metric	Value
Property Name	[Property Name]
Age of Property	[X years]
Location	[City, State]
Unit Count	[XXX]
Average Rent/Unit	$[X,XXX]
Total In-Place Revenue	$[X,XXX,XXX]
Total In-Place Expenses	$[X,XXX,XXX]
Total In-Place NOI	$[X,XXX,XXX]
In-Place Bad Debt	$[XXX,XXX] ([X.X]% of GPR)
In-Place Occupancy	[XX.X]%
Expense Ratio	[XX.X]%
Stabilized NOI	$[X,XXX,XXX]
Market Comp Occupancy	[XX.X]%
Market Comp Sales $/Unit Range	$[XXX,XXX] - $[XXX,XXX]
Weighted Avg Market Comp $/Unit	$[XXX,XXX]
Implied Terminal Value	$[XX,XXX,XXX]
Implied Entry Cap Rate	[X.X]%
Implied Stabilized Cap Rate	[X.X]%

Notes:

- Implied Terminal Value = Weighted Avg Market Comp $/Unit × Unit Count
- Implied Entry Cap Rate = In-Place NOI ÷ Implied Terminal Value
- Implied Stabilized Cap Rate = Stabilized NOI ÷ Implied Terminal Value

Additional Operating Metrics:

- Breakeven Occupancy = Operating Expenses ÷ GPR
- Debt Coverage Ratio = NOI ÷ Annual Debt Service
- Expense Ratio = OpEx ÷ EGI

Data Validation Checklist

☐ T12 total revenue matches sum of components
☐ T12 total expenses matches sum of components

- ☐ Unit count matches Rent Roll
- ☐ Stabilized expenses match T12 (no adjustments)