**2022 CASE STUDY**

**Background:** We are asking candidates to complete a short case study designed to help evaluate your analytical skill set as a Real Estate Investment Professional. You will be given 6-hours to complete the assessment at any time slot during the week of your choosing.

**Summary:** As an analyst, you are responsible for assessing potential investments that have been presented to the Investment Team, and then formulating a well thought out opinion and recommendation on the deal. Your primary objective in this case study is to underwrite and analyze a potential investment.

**Points of Consideration:**

* Consideration will be given for both your quantitative skill set and excel modeling, as well as your ability to analyze the qualitative aspects of an investment to make an informed decision on if you believe it’s a good deal or not.
* Several points of consideration on the excel model are: Accuracy, Automation, Formatting, Presentation, and Efficiency (in writing formulas). Your ability to demonstrate that you can arrive at the correct answer in the shortest number of steps (or characters) will also be given a high amount of consideration. Fundamental modeling errors, hard coded formulas, etc. carry more negative weight even if the final number was correct or not.
* Your written response should be well thought out and demonstrating your intent or thought process in arriving at your recommendation and the assumptions you made to get there. So long as there is sufficient and logical thought that was put into an answer, the “correctness” of your actual answer will carry less weight than your explanation or thought process on how you arrived at that answer. While technically there is no right or wrong answer here, how we assess your work product will largely depend on the thought and explanation that went into the answer rather than the actual numbers that you produce or the recommendations that you make.
* To make the best use of your time during the case study, I would recommend first building your excel model and underwriting the deal. Doing this first will give you a solid foundation and help guide you through the assessment, so you should be allocating a good amount of your time in excel and the written part should come together relatively quickly.
* Other questions you should be asking yourself throughout the case study are; Does this fit within the investment strategy of the portfolio? Is there an adequate risk adjusted return for the deal? At what price does it make sense to proceed forward with buying the deal? The Broker’s Offering Memorandum has been provided to you in the email, which will contain all the relevant information about the deal and the property that you will need to conduct your analysis.

Thank you!

**CASE STUDY**

**Scenario:** You are an analyst at a Real Estate Investment Firm. You get a phone call from a broker who is marketing a “value-add” multifamily property in Dallas, TX called Santa Fe Ranch. You mention to him that your Firm is primarily focused on value-add deals, and that deals in the Portfolio generate >15% IRR’s, >2.0x multiples, and >6% average cash yields over a 5-year hold period. These target returns are consistent with your prior acquisitions and current portfolio, and the firm has sufficient cash reserves to deploy into several more deals this year. The Broker follows up with the Offering Memorandum, and claims that this deal would be a great fit for you and fits within the investment strategy of your Portfolio. The Broker also mentions to you that given the recent compression in cap rates, the Seller has an expectation to sell this deal for under a 4.0% going in cap rate. He has also run some debt quotes for you, saying that debt funds have been pricing this deal at 75% - 80% LTC at L+300 and L+315, respectively. The Broker is also guiding the pricing to be at least $200k per/unit, and mentions that it could even trade higher than that if there is a competitive bidding process.

**Deliverables:**

1. **Build a 5-year pro forma cash flow model in excel to underwrite the deal and evaluate the potential investment.** 
   1. The model should be presentable, easy to follow, and using good modeling techniques / practices (blue font for inputs, no hard-coded formulas, etc.)
   2. In addition to the underlying cash flows and model, be sure to have clear sections in the workbook that also summarize the following:
      1. Purchase Price Economics (Price PSF, Price P/Unit, Trailing 12-Month Cap Rate, Year-1 Cap Rate, etc.)
      2. Sources and Uses (Required Equity, Debt Proceeds, Closing Costs, etc.)
      3. Return Metrics (Profit, Equity Multiple, Unlevered and Levered IRR, Average Cash on Cash Yield, etc.).
   3. In your underwriting, be sure to also capture the embedded upside potential in increasing the rental rates by going through a value-add renovation plan. Be sure to have costs allocated for unit renovations, common areas, and deferred maintenance (if any). You may rely on the broker’s figures for pro forma rents in the OM, but your growth assumptions and general cash flows should be different than the ones the Broker produces.
   4. Be sure to detail out all your assumptions that you for market rent growth, expense growth, debt financing, etc.
      1. Consideration will be given to how much thought you put into your underwriting based on realistic assumptions. Additionally, be thoughtful if you feel your assumptions are conservative or aggressive in anyway. Generally speaking, it is usually a good idea to underwrite more conservative than aggressive.
2. **On the next page in 700 words or less, compose an email summary addressed to a hypothetical Investment Committee as if you were planning on presenting this deal to this Investment Committee in the coming days.** 
   1. This deliverable is essentially a cover letter that this hypothetical Investment Committee will read prior to their formal meeting, and is intended to get them up to speed at a high level on all the important points, highlights, and any areas of concern/mitigants of the deal.
   2. Your email should present the investment to the IC, discuss the return profile of the deal, major underwriting assumptions, and have a recommendation on what price we should proceed forward with the deal relative to the Broker’s guidance range. Be sure to also address the corresponding return metrics at that pricing.
      1. Your purchase price recommendation should also have a “stretch price” for the deal (i.e. what is the absolute max we should pay for the deal) should we get into a highly competitive bidding process, as well as the corresponding return metrics for your “stretch” price.
   3. Your email should also address the following sections (in no particular order):
      1. Market Summary/Outlook, Rent and Sale Comps (helping to justify the price), Location Highlights/Concerns, Physical Building Summary (i.e. unit/common area amenities, property features, parking, age, condition of asset, concern over deferred maintenance, etc.), Underwriting Assumptions (rent growth, exit cap rate, etc.) as well as any other discussion points you feel relevant.
      2. Within these sections, be sure to address any areas of concern or risks in the deal and the mitigants to those risks, as well as how you addressed or incorporated those risks into your underwriting.
   4. You are allowed and encouraged to reiterate talking points from the Offering Memorandum in your email, however do not copy their language word for word. Be mindful of your audience, and the length and wordiness of your email. Consideration will be given to effective communication, ability to communicate using high level talking points, and a recommendation that incorporates realistic return expectations.