

## **DUE DILIGENCE CHECKLIST FOR PASSIVE INVESTORS**

<b>DEAL NAME</b>		<b>DEAL ADDRESS</b>	
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	<b>FACTORS</b>	<b>ITEM</b>	<b>NOTES</b>	<b>GUIDANCE</b>
1	<b>SPONSOR</b>	TRUST		Do you know and trust the sponsor/sponsorship team?
2		TEAM COMPOSITION		Does the sponsorship team consists of people with complementary skills and do they work well together?
3		TRACK RECORD		What's the sponsorship team's track record as a GP? How many years of experience? How many units as a GP? How many deals have they gone full-cycle on? (Exited)
4		EQUITY CONTRIBUTION		Sponsor equity contribution of $\geq 8\%$ of total raise is desirable. Skin-in-the-game
5		HOW MANY DEALS IN PIPELINE		How many deals going on at the same time?

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6	PROPERTY	NUMBER OF UNITS		60 units and up for full-time manager and maintenance, efficiencies of operation
7		PRICE PER DOOR		Price Per Door, generally 50-90K for B/C in a strong market. 110+ for A.
8		CLASS OF PROPERTY		Class A, B, C - Make sure it's not a D positioned as a C
9		LOCATION CLASS		Class A, B, C - It could be a Class C in a Class B neighborhood. Generally, prefer a higher location than the apartment class
10		CURRENT OCCUPANCY		90% or higher is desired, less than 90% does not qualify for an agency loan, /bridge can come with risks
11	MARKET	MARKET TYPE		Primary (Strong, Lowest Risk), Secondary (Good, Medium Risk), Tertiary (Highest Risk) - Cap Rates much reflect this. Can range from 5.5-10 Market Cap Rates in most markets. Landlord friendly state
12		POPULATION GROWTH		> 20% increase in Population since 2000 Large Cities (NY/LA/SF) > 10% Submarket should also show growth
13		INCOME GROWTH		> 30% since 2000 desirable; HH income >= 40K preferably
14		MEDIAN CONDO/HOME VALUE		Median Home/Condo value > 40% since 2000 desirable
15		CRIME RATE		Look at Crime rate data on city-data.com to look for decreasing crime index and crime index < 500, Inversely proportional to education levels

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16	<b>SUBMARKET</b>	POVERTY LEVEL		Less than 20%, less tenant churn due to evictions
17		HOUSEHOLD INCOME		>= \$40K, High Household income indicates a good class A/B area and lower delinquencies
18		UNEMPLOYMENT RATE		Look up city/market unemployment rate and then submarket unemployment rate should be <= 2% higher than city
19		DEMOGRAPHIC DIVERSITY		Should have diversity in the demographics in the submarket. No pie > 95%
20		RETAIL/MAJOR EMPLOYERS		Retail stores available within a 5-mile or 10- mile are indicative of the class of the submarket (Starbucks: Class A/B, Walmart: Class B, Dollar Store: Class C) Who are the major employers in the market and submarket?
21	<b>PROJECTED RETURNS</b>	CASH-ON-CASH RETURNS		COC: Min 7% annual average cash-on-cash return is good, generally range 7-10%
22		TOTAL RETURNS		Projected >70% total returns is desirable. Value-add deals maybe higher due to greater returns at the exit.
23		INTERNAL RATE OF RETURN		16% IRR or greater is desirable
24		DISTRIBUTION FREQUENCY		Quarterly or monthly distribution of cash-on-cash returns
25		INITIAL DISTRIBUTION		6 months for stabilized properties, If there is heavy rehab, 9-12 months, new construction 2-3 years look for decreasing crime index and crime index < 500, Inversely proportional to education levels

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26	FINANCING	TYPE		Fannie Mae / Freddie Mac Non-recourse is desired. Generally, comes with I/O period Bank Loan, Commercial loan - Usually recourse. Bridge loan, Bridge to agency - Maybe Higher risk/higher interest rates but required on deep value add projects/extensive repositioning
27		LOAN-TO-VALUE (LTV)		Ranges generally from 65%-80%. Higher leverage means higher returns generally but can also be riskier.
28		LOAN & IO TERM		Bridge loans - Usually shorter, 1-3 years for extensive rehab/repositioning Agency Loan - 5-10 years, prefer longer loans due to impending downturn and rising interest rates Interest Only (IO) Term is generally 1-5 years.
29	DEAL ASSUMPTIONS	PURCHASE CAP RATE		Can range generally from 5-10%. Will be higher for secondary/tertiary markets than primary markets. Could be higher when the property is repositioned
30		HISTORICAL MARKET CAP		This depends on market and apartment class. This should be the basis for the reversion cap rate.
31		EXIT CAP RATE		Same as market historical cap rate or ATLEAST 50-100 bps higher than purchase cap rate
32		PROFORMA RENT INCREASE		For stabilized, 10-15% guideline. If it's a deep value add/heavy rehab, it can be as high as 25%
33		REHAB BUDGET PER DOOR		\$3K per door is usual might be up to 5K-6K for class B
34		ANNUAL RENT INCREASE		1-3% is a conservative assumption, 3% okay for Y1-2 if rent bumps, lower for Y3-5.
35		YEAR 1 REVENUE INCREASE		6% or higher is desirable. Too high a revenue increase due to rent bumps should be a red flag

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36	PROFIT SHARING	SPLIT-TYPE		Straight or waterfall split; Straight all profits get shared at a certain rate LP/GP like 80/20
37		SPLITS		Ratio of LP/GP Returns <= 80/20 desirable unless preferred LP return If GP>20% then LP returns should be preferred
38		PREFERRED RETURN		Pref return >= 6% is desirable and Split could be 75/25 or 70/30 (If straight split and GP <= 25% then there is usually no pref return)
39	FEES	ASSET MANAGEMENT FEE		Preferred 3% or less
40		ACQUISITION FEE		Generally, 1-2%
41		DISPOSITION FEE		No disposition fee is desirable but it's not out of the norm to see a fee here
42		BANK FEE, GUARANTEE FEE		We don't like to see other fees here unless the returns are substantially higher than average MF deals

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43	<b>TERMS</b>	HOLD TERM		Generally, 5-6 Year hold. If loan term is 5 years only, hold term should be shorter. Want to generally see long loan terms now
44		MINIMUM INVESTMENT		What's the minimum investment that the sponsor requires? This can most times be negotiated. Also consider forming an LLC and investing as an LLC with multiple partners so each of you can contribute a smaller amount
45	<b>OTHERS</b>	BUSINESS PLAN		Does the sponsor have a well-laid out business plan. Does it seem achievable and reasonable given market conditions, rehab budget and other factors
46		STRESS TEST		How did the sponsor stress test the deals? Do their assumptions seem reasonable?
47		EXIT STRATEGY		Parameters to exit the deal is clearly defined. How and when does the sponsor team plan to exit?
48		DEPRECIATION		Will cost segregation be done? How much bonus depreciation can you expect on the entire deal (you will take a portion of it depending on your investment)
49		LIQUIDITY		What liquidity are you looking for? Consider IRA/Solo 401(K) investments instead of cash
50		INVESTMENT TYPE		Cash/IRA/Solo 401(K)? Review the pros and cons of each
51	<b>DUE DATES</b>	WEBINAR DATE		Webinar Date & Link if you want to revisit
52		COMMITMENT DATE		Most GPs will require you to provide some type of commitments after the webinar to gauge interest level
53		FUNDING DEADLINE		Deadline for wiring your funds, remember to wire before 2 pm for same-day wires to most US banks

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54	<b>MORE QUESTIONS</b>	How many deals have you done in the area?		See how well the Sponsor knows the area.
55		How much do you have in reserves AFTER the construction budget?		There has to be money in rainy day fund.
56		How will investors know when performance drops below expectations?		The sponsor should be sending at a minimum monthly update.
57		Where is the risk in this sub-market?		Last 3 years should have population growth.
58		What DON'T you like about this deal?		
59		Will you be implementing RUBS?		The answers should be yes if not already implemented.
60		Is it in a flood zone? Tornado area? Earthquake area? for that?		Prefer not to be in such an area.
61		Is the insurance locked in?		Prefer Should be locked in.
62		Can I see the Loss Runs report (Preferably 3 years)?		If cannot show then some type of commitment that there is

## More Questions

63	Is your loan rate locked in?		Should be Yes
64	Have you had an appraisal done on the property? Can I see it?		Yes, and see if they can share.
65	What type of debt will be on the property (Bridge/Agency/Other)?		This is open as depends on the deal parameters.
66	What's the term of the loan (1yr/2ry/5yr/10yr/12yr/Other)?		This is open as depends on the deal parameters.
67	If the plan is to refi, do I maintain my equity in the deal after you		This must be well documented in the investment plan and you as the Investor need to agree with it.
68	What is the plan if no refinance?		This is open as depends on the deal parameters.
69	What's the hold period for this property?		6 to 10 years.
70	Do you have outside money raisers? If so, how are they being compensated?		Not a big fan of outside money raises.
71	Is there a preferred return on this deal? Why or why not?		If no pref. return then less fees and so forth.

\* Good Resources for Market/Submarket research - [city-data.com](http://city-data.com), [bestplaces.net](http://bestplaces.net), [usa.com](http://usa.com), [census.gov](http://census.gov)

