

MULTIFAMILY UNDERWRITING

DEAD ON ARRIVAL

7 numbers to check before you model anything

SCREEN IN ORDER — STOP = DEAD | VERIFY = DIG BEFORE MODELING

01 Break-even occupancy > 85%

85–90% is a caution zone with almost no margin for a bad quarter. Above 90% is a hard stop. Model your actual debt terms, not the seller's.

STOP

02 DSCR < 1.25x at actual debt terms

Use your real rate and amortization, not the seller's. Below 1.25x, most agency lenders flag it. Below 1.20x, most pass entirely.

STOP

03 Going-in cap rate below your debt constant

Negative leverage from day one. Every dollar of debt costs more than the asset earns. No appreciation assumption fixes this at close.

STOP

04 Insurance budget below local market rate

National multifamily insurance averaged ~\$68/unit/month in 2024, up 119% since pre-pandemic. Rates vary by state, storm exposure, and coverage. If the T12 looks low, restate to local market before modeling NOI.

VERIFY

05 T12 expense ratio below asset-class norms

Typical range is 35–50% of EGI depending on asset class. Below 38% on B/C assets means something is missing. Check management fees, CapEx reserves, and utilities line by line.

VERIFY

06 Reported occupancy materially above submarket

Pull direct submarket comps. A better-located or renovated asset can legitimately outperform, but validate against the rent roll, recent lease activity, and concessions before using the number.

VERIFY

07 Tax line doesn't reflect post-sale reassessment

Sale triggers reassessment in most Sun Belt markets. Add 20% to the current tax line and recalculate NOI. If that breaks the deal, it was already dead.

STOP