Oakline Commerce Center acquisition

Sample case from The Commercial Real Estate Investment Playbook | Michael Bruni, CFA®

Oakline Commerce Center is a fictional 20,000 SF industrial property with four 5,000 SF bays. I'll walk through it with you as if the offering memo just landed on your desk. Try the assignment before turning to the worked decision. All figures are teaching assumptions.

The seller's offering memo

Asking price $2,400,000. Seller-reported NOI $210,000. Advertised cap rate 8.75%. All four bays are occupied at acquisition. The seller's memo assumes continued occupancy and uses its own operating expense history.

Bay	Annual base rent	Annual recoveries	Remaining lease term
A	$60,000	$7,500	42 months
B	$60,000	$7,500	30 months
C	$60,000	$7,500	24 months
D	$60,000	$7,500	Expires at closing

Trailing statement and lease extracts

Trailing statement line	Annual amount
Base rent	$240,000
Expense recoveries	$30,000
One-time insurance settlement	$12,000
Taxes and insurance	($48,000)
Repairs and other operating expenses	($24,000)
Seller-reported NOI	$210,000

The leases require the landlord to pay the listed operating expenses. The occupied tenants reimburse $625 monthly per bay under the simplified expense provisions. No recovery is payable while a bay is vacant. Bay D has no signed renewal. The seller self-

manages, and the buyer's annual management quote is $18,000, including during vacancy. The insurance settlement is nonrecurring. Confirm the rent roll against leases and collections before relying on the figures.

Illustrative lender term sheet

Term	Assumption
Loan-to-value limit	65% of the lower of price or appraised value. Assume value equals price for the exercise.
Minimum DSCR	1.25× using the stressed first-year NOI
Minimum debt yield	10% using the same stressed NOI
Annual debt constant	9.00% of principal. Use this simplified payment factor.
Structure	Five-year maturity. Confirm amortization, balloon and actual payment schedule before commitment.

Assume Bay D is vacant for six months and then pays the same base rent and recoveries for six months. Operating costs stay flat. Allow $45,000 for tenant improvements, $15,000 for commission and $75,000 of opening liquidity above those committed leasing costs. Acquisition costs are 3% of price. The buyer can commit $1,050,000 total equity and requires an 8% normalized going-in cap rate.

Your assignment

Calculate the normalized and stressed NOI, the loan at the asking price, the equity required and the maximum price supported by both investment rules. Test a $2.1 million offer and explain the cash effect of the first-year lease-up. Write three diligence conditions and one reason you would walk. The Oakline Practice workbook gives you the evidence and a blank calculation area. Work through it before opening the Answer Key workbook.

Use the accompanying Oakline Answer Key to check your work after completing the exercise.