Marcus & Millichap
Capital Corporation

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USING FUTURE INCOME TO INCREASE LEVERAGE

Issue/Challenge

- Multi-family project w/below-market rents
- Rents did not meet debt-service coverage
- Seller was passing on upside for low cap rate

Resolution

- Lender agreed to underwrite the transaction based on pro forma rents
- Marcus & Millichap research supported that rents could be increased pro forma
- Purchase transaction closed with full loan dollars

An investor was acquiring a multi-family project with rents that were substantially below market. The seller was passing along some of the upside as justification for receiving a price with an extremely low capitalization rate. The buyer was willing to move forward contingent upon securing a loan at a 77 percent loan to purchase price ratio. The property's current actual rents did not provide for adequate debt-service coverage. In addition, while the client had historically good cash flow from other assets, he was not highly liquid.

Marcus & Millichap Capital Corporation sourced a correspondent lender that agreed to underwrite the transaction based on pro forma rents (achievable market rents). Using market data and information produced by our national research department and the Marcus & Millichap real estate agents involved, we were able to support the client's assertion that rents could be increased to pro forma. Using conservative market rents, the transaction could be underwritten to provide adequate debt-service coverage. The lender agreed to take additional collateral until pro forma rents were achieved, at which time the collateral would then be released. The purchase transaction closed with full loan dollars.

Contact your MMCC Loan Originator