



Residences at Scarlet & Gray

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Legendary Ohio State football star Eddie Galloway and his family have hired your firm to invest a portion of the family trust in a relatively safe, income-producing real estate investment. With their love for Ohio State, their preference would be to purchase a multi-family property near campus that they could rebrand as the “Residences at Scarlet & Gray.” They are looking for a well-established property that would not require much redevelopment or renovation. Their target property would cost in the range of \$20M to \$30M with around \$5M to \$15M coming from equity. After reviewing a number of properties in the area with the Galloway family, everyone has agreed that the ideal property would be the mixed-use property currently labeled The Lane.

The Lane is not listed for sale. Your objective is to determine an appropriate property value and offer price based on the projected cash flow stream and discount rate associated with the property.

Property Summary: Constructed in 2012, The Lane is a mixed-use property that contains multi-family and office space over retail. It is part of a larger mixed-use development in the heart of Upper Arlington which also includes a Homewood Suites hotel and a future 20,000 SF neighborhood retail center. It is across the street from another recent retail development, The Shops on Lane Avenue, that was developed in 2005 and features many high-profile neighborhood and regional retail tenants such as Whole Foods, Bed Bath and Beyond, and Talbots. The property is located in an area densely populated by a mix of established, high-income residents and college students. It is easily accessible to major highways and freeways.

Property-level Information:

- Land area: 1.5 acres
- Gross building area: 120,000 SF
- Floors: 5 levels
- Parking: 175 spaces
- Units: 108 (23 1-bedroom, 79 2-bedroom, 6, 3-bedroom)
- Office (2nd Floor): 13,000 SF
- Retail: (1st Floor): 13,000 SF

Financing Terms:

- Term: 10 years
- Amortization Period: 30 year, fixed-rate
- Interest rate: 4.25%
- Loan-to-value: 75%
- Loan fee: 1.5%
- Payments: monthly



Required Returns: 7.5% (unlevered) / 15% (levered)

Purchase & Sale:

- Purchase date: December 31, 2015
- Holding period: 10 years
- Exit cap rate: Current market cap rates

Operating Expenses:

- Operating Exp.: 45% of revenues
- Mgmt. Fee: 3.5% of effective gross income

Property Tax Assumptions:

- Multi-family: \$325 / unit / year
- Office: \$0.40 / SF / year
- Retail: \$0.40 / SF / year

Rent Roll: See Exhibit 1

Sales Comps: See Exhibit 2

Lease Comps: See Exhibit 3



Your task is to value the investment opportunity. Follow these steps:

1. Value the property based on the projected NOI and an appropriate cap rate.
2. Value the property based on a static version of the Pro forma valuation model.
3. Value the property based on a dynamic Pro forma valuation model.
4. Build a base Pro forma valuation model.
 - a. Obtain Unlevered Property Cash flows: Build a model that forecasts the expected incremental cash flows from purchasing the property.
 - b. Obtain Levered Property Cash flows: Add to the model the incremental loan proceeds and payments associated with obtaining financing on the property. Calculate the residual cash flows to and from the equity investor.
 - c. Calculate the Expected Unlevered and Levered Property Values and IRRs: Value the projected cash flows from the property before and after leveraging with debt. Calculate IRR values based on the levered and unlevered cash flow streams based on a purchase price calculated in the static valuation model.



Helpful Excel Tips

1. Debt Service Payment

- $=PMT(\$C\$59/12, \$C\$60*12, \$H\$41)*12$
- This formula calculates the yearly total of monthly debt service payments based on the following.
 - C59 = annual interest rate
 - C60 = number of payment periods (amortization period x # of years)
 - H41 = loan amount originally borrowed

2. Principle Portion of the Debt Payment

- $=CUMPRINC(\$C\$59/12, \$C\$60*12, \$H\$41, H3*12+1, I3*12, 0)$
- This formula calculates the yearly total of the principle portion of the monthly debt service payments based on the following.
 - C59 = annual interest rate
 - C60 = number of payment periods (amortization period x # of years)
 - H41 = loan amount originally borrowed
 - $H3*12 + 1$ = first month of this year's debt service payment
 - $I3*12$ = last month of this year's debt service payment