

The Underwriting Process

What is underwriting?

It is the process of evaluating the risks, financial performance, and overall viability of a real estate investment before committing capital. It evaluates potential outcomes for project income, expenses, capital needs, and financing, enabling participants to make informed decisions.

Good underwriting identifies both opportunities and risks. Effective underwriting supports informed real estate decision-making and helps identify both opportunities and risks.

A brief overview of the underwriting process is as follows:

- 1** --- **Gather property and financial documents**
 Collect rent rolls, operating statements, etc. to understand current performance.
- 2** --- **Analyze market rents, sales, and occupancy**
 Look at comparable properties and trends to ensure assumptions match real conditions.
- 3** --- **Build the financial model and set assumptions**
 Project income, expenses, capital needs, and financing to determine expected returns.
- 4** --- **Stress test key assumptions and evaluate risks**
 Adjust key assumptions to see how sensitive the deal is to market or cost changes.
- 5** --- **Complete physical and legal due diligence**
 Inspect the property and verify zoning, title, and compliance to avoid hidden issues.
- 6** --- **Finalize underwriting summary & approval package**
 Compile findings into a concise report that supports the investment decision.

Even after approval, underwriting does not end. Strong real estate firms treat underwriting as an ongoing process. They revisit assumptions during construction, lease up, stabilization, and throughout the hold period. Early projections may change due to:



Markets Changes



Shifting Costs



Performance

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