IRONCLAD

FIELD GUIDE · MULTIFAMILY ACQUISITIONS

7 Red Flags in a *Multifamily* Deal

The assumptions a sponsor hopes you won't pressure-test — and the exact checks that catch them before you commit capital.

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▤ WHY THIS GUIDE

Deals don't fail in the spreadsheet. They fail in the *assumptions.*

A polished offering memorandum is a sales document. The returns on the last page are only as good as the handful of inputs underneath them — in-place income, expense loads, rent growth, exit cap, debt, and capex. **Move any one of those a few points and a "16% IRR" deal becomes a break-even one.**

This guide is the short version of how we underwrite at Ironclad: find the assumptions carrying the deal, and stress them until they either hold or break. What follows are the seven that most often quietly inflate a multifamily projection — each with the tell that exposes it and the check that settles it.

> "Before you buy the deal, *know where it breaks.*"
>
> Every flag below maps to a number you can independently verify. Ask for the source document, not the summary — and if the number cannot be traced back to one, treat the gap itself as the answer.

01

Read it deal-side

Whether you're an LP screening a sponsor or a syndicator sharpening your own model, use these as a pre-commitment checklist.

02

Verify, don't assume

Each red flag names a document or data point that proves or disproves it. Ask for the source, not the summary.

03

Stress the survivors

An assumption that survives one bad scenario is defensible. One that only works at best-case is a bet, not an underwrite.

Jason Williams, Ph.D.

ACTIVE MULTIFAMILY SPONSOR & UNDERWRITER · BUILDER OF IRONCLAD

I underwrite the deals I actually buy, with my own money in them. These seven checks are not theory — they are the triage I run before I will spend real time on a deal, and they are the same logic the Ironclad platform enforces. Ph.D. chemical engineer, fifteen years in R&D, which is why I built a system instead of another spreadsheet.

01
RED FLAG

A T-12 that doesn't reconcile

The pro forma is built off a trailing-twelve that has been quietly "cleaned up" — one-time income left in, below-the-line expenses stripped out, or a strong final quarter annualized into a run-rate the property has never actually sustained.

WHY IT MATTERS

Every projection compounds off Year 1. Inflate starting NOI by 5–8% and, once a cap rate is applied, the exit value is overstated by far more.

WHAT TO DO

Tie the T-12 to bank statements and the rent roll. Reconcile the trailing-3 annualized against the trailing-12, and add back a full expense load even if the seller self-manages.

CHECK Does **in-place NOI** hold when you annualize the trailing 3 months separately from the trailing 12 — and strip every non-recurring dollar?

02
RED FLAG

A rent roll propped up by concessions & loss-to-lease

Headline occupancy looks healthy, but economic occupancy tells a different story: heavy concessions, high loss-to-lease, month-to-month tenants, or a wave of leases signed right before sale to firm up the trailing numbers.

WHY IT MATTERS

Physical occupancy is not collected rent. A 95%-occupied building running 10% concessions and 4% bad debt is not a 95% deal — and won't underwrite like one.

WHAT TO DO

Work in economic occupancy. Age the delinquency, read the lease-expiration schedule for a rollover cliff, and separate real in-place rent from the "market" rent you're being asked to assume.

CHECK What is **economic occupancy** after concessions, bad debt, and loss-to-lease — and how many leases roll in the first 12 months?

03
RED FLAG

Expense assumptions that defy the submarket

An expense ratio well below comparable operations — the phantom 40% — with property taxes held flat despite a sale that will trigger reassessment, and insurance modeled at last year's premium in a hardening market.

WHY IT MATTERS

Taxes and insurance are the two line items most likely to reset hard at close, and both flow straight through to NOI in Year 1.

WHAT TO DO

Reassess taxes at the purchase price using the local assessor's method. Get a real insurance quote, not an estimate. Benchmark total expenses per unit against the submarket.

CHECK

Are **taxes reassessed at your basis** and insurance bound at a live quote — and do total expenses land within the submarket's per-unit range?

04
RED FLAG

Rent growth that only works on a spreadsheet

Year-one rent bumps of 8–15% justified by a renovation premium, stacked on top of 3–4% annual market growth — with no downtime, no lease-up drag, and no concession assumed to win those rents.

WHY IT MATTERS

The entire value-add thesis usually lives in this one input. Small changes in achievable premium and pace swing the returns dramatically.

WHAT TO DO

Demand renovated comps within a mile actually leasing at the assumed premium. Model downtime and slower absorption. Ask what returns look like at half the premium.

CHECK

If the **renovation premium is halved** and lease-up slows, does the deal still clear your return threshold — or does it only work at best case?

05
RED FLAG

An exit cap rate that assumes a better world

The exit cap rate is set equal to — or below — the going-in cap, betting the property sells at a richer valuation years from now regardless of where interest rates move in the interim.

WHY IT MATTERS

Exit cap is the single most powerful — and least controllable — driver of IRR. Compressing it manufactures a return the operator never actually earned.

WHAT TO DO

Expand the exit cap at least 10 bps per year of hold over the entry cap. Stress a +50 to +100 bps move. If it only works on compression, you're underwriting the market, not the asset.

CHECK Is the **exit cap ≥ entry cap**, and does the deal survive a +75 bps expansion at sale?

06
RED FLAG

Debt that doesn't survive a stress scenario

Short-term bridge or floating-rate debt with a thin or expiring rate cap, a refinance assumed at a lower rate, or a DSCR that only clears 1.0x because interest-only is masking the amortizing payment.

WHY IT MATTERS

Financing risk — not operations — is what forced most of the recent multifamily distress. A deal can perform and still be taken out by its capital structure.

WHAT TO DO

Model the loan at the capped rate, not today's. Check when the cap expires and who buys the next one. Test the refi at a higher rate and lower proceeds; confirm DSCR fully amortizing.

CHECK At the **capped rate and a stressed refinance**, does DSCR hold above your floor on a fully-amortizing basis?

07
RED FLAG

A capex budget with no room to be wrong

A renovation budget built on best-case per-unit costs, no contingency, and a timeline that assumes crews, materials, and permits all arrive on schedule — in a market where none of those reliably do.

WHY IT MATTERS

Capex overruns hit twice: the extra spend, and the delayed rent it was meant to unlock. Both compress returns exactly when the business plan is most fragile.

WHAT TO DO

Carry a 10–15% contingency on hard costs. Pressure-test the per-unit budget against a real scope, not a rule of thumb. Extend the timeline and price the rent lost to slippage.

CHECK Is the capital **committed, not just "available"** — and does the plan still work with a 15% overrun and a slower timeline?

▤ THE ONE-PAGE TEST

Seven checks, one standard: would it still hold if you're wrong?

Run every deal through the same discipline: reconcile the income, load the expenses, halve the upside, expand the exit, stress the debt, and pad the capex. A deal that clears all seven is defensible to your lender, your investors, and yourself. One that needs every assumption to break in its favor was never a deal — it was a hope with a spreadsheet attached.

08

RED FLAG

The biggest red flag is *not on the list.*

There are seven checks in this guide. The biggest red flag of all is not having coaching, teaching, or mentoring to help you use them.

A checklist tells you where a deal breaks. It does not tell you what to do about it at eleven o'clock the night before the LOI is due — when the exit cap is defensible but thin, the insurance quote came back forty percent over, and the broker wants an answer in the morning. That judgment is not in a PDF. It is not in a model either, including mine.

An Ironclad model will show you the number. Someone who has been wrong before, on their own money, will tell you what the number means. That is what a coach is for, and it is the difference between owning a checklist and knowing how to use one.

> ## The best deal is often *the one you don't do.*
>
> The discipline to walk away from a flagged deal is the same discipline that makes your "yes" mean something to the people who wired you money.

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PUT THE CHECKLIST TO WORK

Stop guessing where *the deal breaks.*

Ironclad is the underwriting platform serious investors use before they put capital at risk — rent roll, trailing financials, debt, taxes, renovations, and returns in one place, stress-tested against the downside.

ONE NEXT STEP

Run the 2-minute analyzer.

Paste the numbers off an offering memo and get a fast go/no-go before you spend a night in the model — the same triage the seven flags describe, automated.

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