Investment Hypothesis

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Investors usually have a basic premise for making a particular investment. Oâ€™Connor and Associates terms this concept the â€œinvestment hypothesisâ€•. Evaluating the accuracy of the investment hypothesi early in the acquisition process allows the investor to increase their returns and reduce due diligence expenses.

Following are examples of typical investment hypotheses:

This property will yield an unleveraged 7% return based on its current revenues and expenses.

There is an existing tenant with a below-market rent for half the space in this office building. By either increasing their rent to market or replacing them with a tenant at a market rate rent when their lease expires in three years, this building will generate an 11% yield on total costs.

An existing apartment complex is 60% occupied and has substantial deferred maintenance. The investor believes by spending $6,000 per unit to cure deferred maintenance he can increase rents to $.70 per square foot and generate a 10% yield on total costs.

In many cases, the investment hypothesis is correct. However, in cases where the investment hypothesis is not correct, the investor can expend substantial time and due diligence costs before concluding the investment will not succeed. Alternatively, the investor could proceed with the investment and not realize until after capital expenditures have been completed that the investment hypothesis is not correct. In either case, the investor benefits from realizing as quickly as possible that the investment hypothesis is not correct.

Following are the benefits of obtaining an expedited analysis of the accuracy of an investment hypothesis:

Achieve better investment results by considering more investment options and finalizing only transactions which best fit your criteria.

Decline to proceed more quickly for transactions which do not fit your criteria. Both sellers and brokers appreciate a fast decline if the transaction is not going to close. Investment hypothesis costs are reduced, including legal fees for the contract, third-party reports, other due diligence costs and legal fees for loan documents.

Principle is not required to spend time or travel to the property to complete the initial review.

Cost of initial review is modest compared to cost of complete due diligence.

An expedited review of your investment hypothesis can typically be completed in seven to 10 days. The engagement will be handled by one of our senior real estate professionals who typically has at least 10 years of real estate experience. The review will include an on-site visit and the appropriate research, due diligence and analysis of the investment hypothesis to determine whether it is probable your investment hypothesis is correct. This service is available throughout the United States. Oâ€™Connor and Associates typically completes engagements in 30 to 40 states each year.

Fees are based upon the time required and travel costs. In most cases, a review of an investment hypothesis can be completed with two days of effort, assuming modest scope of work for the

reporting process. Results can be reported in any format from an oral report to a detailed full narrative report with all underlying data.

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The appraisal division of Oâ€™Connor & Associates is a national provider of commercial real estate appraisal services including cost segregation studies, a partial interest valuation, due diligence, insurance valuations, feasibility studies, a real estate valuation, financial modeling, gift tax valuations, highest and best use analyses, casualty loss valuations and HUD map market studies.

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