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25 of the Most Common CRE Acquisition Mistakes

| By [Natalie Dolce](#)
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Joseph Ori, executive managing director of Paramount Capital Corp.

WALNUT CREEK, CA—One of the most important procedures involved in acquiring a CRE asset is the acquisition process. That is according to **Joseph Ori**, executive managing director of **Paramount Capital Corp.**, based here in Walnut Creek, CA. “The acquisition process includes soliciting deals from brokers and sellers, visiting the property, underwriting the property, due diligence, negotiating the agreement of purchase and sale, arranging the debt and equity capital and closing the purchase.”

Ori tells GlobeSt.com that many purchasers make costly mistakes during the acquisition process. Below are what he considers that 25 of the most common CRE acquisition blunders.

1. Relying on the broker/seller regarding property and tenant data without independent verification.
2. Failure to abstract all tenant leases on commercial properties.
3. Failure to obtain tenant estoppel letters from the major tenants and for at least 75% of the rentable square footage.
4. Failure to verify tenant sales on retail properties.
5. Having the seller's real estate counsel prepare drafts of the purchase and sale agreement and other closing documents.
6. Relying only on the acquisition deal team to prepare the underwriting spreadsheet proforma of the deal, instead of having an independent group prepare a separate proforma.
7. Undetected formula errors in the Excel or Argus underwriting worksheets.
8. Failure to complete a thorough physical inspection and engineering report on the property.
9. Agreeing to allow the seller to provide no representations and warranties regarding the property.
10. Trying to close the acquisition under a binding letter of intent instead of an agreement of purchase and sale.
11. Failure to inspect and verify all vacant tenant spaces on or just prior to closing.
12. Executive management of the purchaser not visiting the property prior to closing.
13. Not having a gap or bridge loan facility to close the transaction and until the equity is raised and invested.
14. Failure to perform credit due diligence and financial analysis on the major tenants.
15. Not anticipating the mortgage lenders lock box requirement for rent collections.
16. Failure to prepare a schedule and provide a funding mechanism for property capital improvements.
17. Failure to compare and reconcile an apartment property's yearly effective gross income to the seller's yearly cash deposits on the bank statement.
18. Failure to review the tax returns for the property.
19. Not preparing a scenario analysis of the property underwriting with at least a "most likely" and "pessimistic" outlook.
20. Failure to request from the seller a price discount for unknown and contingent repairs, maintenance, tenant issues, lost rent and other negative items discovered during due diligence.

21. Failure to calculate accurately and underwrite the new property tax assessment and real estate tax expense.
22. Failure to anticipate Unrelated Business Taxable Income and ERISA issues for tax exempt investors.
23. Failure to calculate and verify common area maintenance billings for commercial properties.
24. Not remeasuring and verifying the usable and rentable square footage of commercial properties.
25. Allowing the acquisition team to also complete the due diligence and underwriting of the property.

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