



10 Key Questions Private Real Estate Investors Should Ask

A practical due diligence checklist for evaluating managers and opportunities

Every private real estate investment starts with a promise of high returns. But it's rare for an investment to follow the perfect path of its pro forma. [Here are 10 questions](#) to help you understand a real estate manager's approach and potential performance.

QUESTION 01

Are the model assumptions accurate?

What are the projected internal rate of return (IRR), MOIC and their exit [Cap Rate assumption](#)?

What has been their past record in meeting prior deal returns and assumptions?

See: [Cap Rates 101: Why They Matter in CRE Investments](#).

QUESTION 02

How much of your money are you, the manager, investing?

Alignment is everything. Your manager should be investing a significant amount of his or her own capital. They should have their own "skin in the game," right along with you.

QUESTION 03

What is your competitive advantage or edge in the market?

What does the manager believe his or her team does better than anyone else in the market? It should be quantifiable, and can they succinctly describe it?

QUESTION 04

How do you ensure that my capital is protected in a down market?

Have they consistently beaten their own projections?

- Do they take into account a [rising interest rate market](#) and a [rising cap rate environment](#)?
- Do they cross-collateralize assets? In a fund structure, assets should not be cross-collateralized because it destroys diversification and magnifies risk.
- How much [leverage](#) do they use? Beware of deals financially engineered with mezzanine debt and [preferred equity](#). Do they, as GP, personally guarantee loans?

QUESTION 05

How can the deal lose money?

Generally, one won't find this question addressed in the materials the sponsor provides. Listen for a sincere, well-reasoned answer.

Ask them for a stress test model to better understand the "what if" scenarios.

First-pass diligence lens

Assumptions: Test projected returns and exit cap rates against prior results.

Edge: Ask for a concise, quantifiable advantage.

Alignment: Confirm meaningful manager co-investment.

Downside: Probe leverage, collateralization and guarantees.



MANAGER DUE DILIGENCE

Questions 6-10: Experience, Alignment & Transparency

Look for candid answers supported by evidence, references and disciplined financial reporting.

QUESTION

06

What was your worst deal and what did you learn from it?

Every manager has a bad deal in their past. What was the cause, how did they address it and did they communicate to investors during this period? Review past client communications for that period.

QUESTION

07

Can I speak with one of your current and past investors?

What has been their experience?

QUESTION

08

How is your company funded? What does the balance sheet look like?

What long-term financing do you have in place and what third-party borrowing facilities do you have access to, if and when needed?

If the project runs out of money, who will they lean on for funding?

QUESTION

09

How is your team incentivized?

Is it based on raising capital or meeting performance objectives? Do they have exposure to deal outcomes? Teams win the long game.

QUESTION

10

What is included in all your fees?

Make sure you ask about every fee throughout the structure and with associated LLCs.

Ask for an organizational chart and then inquire about fees and reporting in each and every entity.

Unfortunately, too many deals get funded with nothing more than great marketing materials.

BONUS



Does the sponsor or manager have audited financials?

Have they consolidated "closed" accounting and reporting into all LLCs, at all levels?

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Consolidated from an article originally published on **The White Coat Investor**. [View the original article.](#)

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