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BACK-OF-THE NAPKIN UNDERWRITING GUIDE

A fast, grounded way to decide whether a deal deserves deeper work.

PURPOSE

This guide is designed for early-stage evaluation—before full models, consultants, or sunk costs. The goal isn't precision. It's directional clarity: does this opportunity warrant time, capital, and attention?

WHEN TO USE THIS

- Reviewing land or value-add opportunities
- Evaluating off-market deals quickly
- Sanity-checking broker materials
- Deciding whether to proceed to formal underwriting



STEP 1: DEFINE THE DEAL IN ONE SENTENCE

If you can't summarize it simply, that's a signal. What is being built or acquired? For whom? Why this site, now?

STEP 2: ESTABLISH THE EXIT FIRST

Start with where you need to land, not where you're starting. If your exit depends on best-case market conditions, pause.

STEP 3: REVENUE – KEEP IT CONSERVATIVE

Use today's achievable rents, not pro forma optimism. Stress-test pricing with modest reductions.

STEP 4: EXPENSES – DON'T OVERTHINK, DON'T UNDERESTIMATE

Multifamily operating expenses often fall in the 30–40% of EGR range, with added margin for taxes, insurance, and management.

STEP 5: QUICK NOI CHECK

$\text{NOI} = \text{Effective Gross Revenue} - \text{Operating Expenses}$. This number does most of the work at this stage.

STEP 6: DEVELOPMENT OR ALL-IN COST REALITY

Account for land, hard costs, soft costs, financing, carry, and contingencies. Discomfort here is a signal.

STEP 7: THE MARGIN TEST

Is there clear spread between cost and value? Is the margin wide enough to survive friction and time?

STEP 8: TIME IS A COST

Delays compound risk. Write down entitlement, construction, and absorption timelines honestly.

STEP 9: SIMPLE RETURN REALITY CHECK

Does the risk feel proportionate to the return? Is this better than doing nothing?

STEP 10: THE WALK-AWAY QUESTION

If this opportunity disappeared tomorrow, would you feel relieved or disappointed?



FINAL THOUGHTS

Back-of-the-napkin underwriting is about protecting focus.

It creates space to evaluate opportunities without momentum, noise, or optimism doing the work for you. Before time, capital, and emotion are committed, this process asks a simple question: does this deal deserve deeper attention?

The strongest opportunities don't rely on perfect execution or best-case assumptions. They hold together when rents soften, timelines stretch, costs creep, or markets pause. If a deal only works when everything goes right, it's not resilient—it's fragile.

Early underwriting isn't about finding reasons to say yes. It's about earning the right to proceed. When assumptions soften and the deal still makes sense, focus is preserved for the opportunities that can truly withstand real-world conditions.

Happy to set up a call to provide more insight or context.