

THE ALAKAI INVESTOR BLUEPRINT™

How Sophisticated Investors
Evaluate Commercial Real Estate in Any Market Environment

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Introduction

Commercial real estate can be one of the most reliable ways to build long term wealth, but the process of evaluating a deal is not always clear. Many investors review offering memorandums, pro formas, and projected returns without fully understanding what matters most or how to identify a strong opportunity.

This Blueprint was created to give you a **clear, simple, and professional framework** for analyzing commercial real estate the way experienced operators do. The ideas in this guide reflect how Alakai Capital evaluates retail and industrial properties across Florida and select U.S. markets.

By the end of this Blueprint, you will understand how to break down a deal step by step, how to recognize value creation, how to identify risk, and how to ask the questions that help you become a more confident investor.



The Professional Evaluation Framework

How Professionals Evaluate Deals

Most investors begin with the projected returns, but professionals work in the opposite direction. Strong underwriting and stable performance come from understanding the fundamentals that support those returns, not the headline numbers.

Experienced operators use a consistent framework when evaluating a commercial real estate opportunity. The sequence is intentional, and it ensures that every part of the investment is examined in the right order.

The Professional Sequence:

- **Start with the Tenant & Lease:** The source and structure of income.
- **Evaluate the Location:** Does the market support the tenant?
- **Perform Underwriting:** Are the income and expense assumptions realistic?
- **Define the Business Plan:** How exactly will the sponsor create value?
- **Review Debt & Downside:** Does the financing introduce risk, and how does the deal perform under stress?

This sequence creates a structured, disciplined approach that allows operators to separate strong opportunities from speculative ones.

The Income Foundation: Tenant and Lease

Understanding the Tenant and the Lease

The Tenant: The Source of Income

A property is only as strong as its tenants. Operators look for businesses that rely on in-person activity, such as medical, dental, fitness, essential services, restaurants, and many industrial users. These tenants tend to be more resilient because their business model depends on physical presence.

A strong operating history provides far more predictability than a new concept. When the tenant and trade area are aligned, long-term performance improves significantly.

The Lease: The Structure Behind the Cash Flow

The tenant generates income, but the lease determines how that income reaches investors. Operators focus on:

- Remaining lease term
- Scheduled rent increases
- Whether the tenant pays operating expenses (NNN leases provide more predictable performance).

Why Both Must Be Evaluated Together

A great tenant is not enough without a solid lease, and a long lease means little if the tenant is weak. When both are strong, the investment gains the most important advantage in commercial real estate: stable and predictable income.

Location and Market Fit

Location Fundamentals and Market Fit

Location is one of the strongest predictors of a property's long-term performance. Even an average building can perform well in the right market, while a great building in a weak location often struggles. This is why operators study the location before they study returns.

A strong location is one where the surrounding market naturally supports the tenant's business. This includes population density, income levels, traffic counts, and the mix of nearby businesses.

Market fit is just as important. Different tenants rely on different location traits (e.g., a coffee brand needs morning traffic; industrial needs major road access). When the tenant's needs match the strengths of the area, the investment becomes significantly more resilient.

Understanding this relationship is essential before evaluating any financial projections.



How Underwriting Actually Works



Underwriting is the process of translating a property's real-world operations into financial projections. It is not about predicting the future with precision. It is about testing whether the investment still works under reasonable, real-world conditions.

The Three Pillars of Conservative Underwriting

- **Evaluating Income:** Compare current rent to market rates and assess stability. If projected rents are higher than what comparable properties achieve, the underwriting may be overly optimistic.
- **Reviewing Expenses:** Use accurate benchmarking for property taxes, insurance, maintenance, management, and capital reserves.
- **Accounting for Downtime:** Realistic underwriting includes the possibility of months without rent, leasing commissions, and tenant improvement costs when a space turns over.
- **Stress Testing:** Professionals run scenarios where rent growth slows, expenses increase, or lease-up takes longer than expected. If the property remains stable under these conditions, the underwriting is likely sound.

The Business Plan: Where Value Comes From

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Every commercial real estate investment is built around a business plan. It must explain how the sponsor intends to create value over the life of the project.

A good business plan is grounded in realistic steps:

- **Income Improvements:** Bringing rents closer to market levels, renewing strong tenants at improved terms, or leasing vacant space to fitting operators.
- **Physical Improvements:** Enhancing curb appeal, updating facades, or refreshing parking areas to make the property more attractive.
- **Realistic Timing:** Professionals build plans that allow for flexibility rather than requiring perfect execution.

The goal is to create long-term value in a way that matches the reality of how properties operate.



Sophisticated Questions Every LP Should Ask

The Sophisticated Investor Checklist Five Non-Negotiable Questions to Ask Your Sponsor

01

Does the debt structure support the investment, or introduce unnecessary risk?

Checks the stability of the loan (fixed vs. floating) and protection under rising rates.

02

What is the going-in DSCR, and will cash flow comfortably cover debt service?

Debt Service Coverage Ratio: A high DSCR means the property produces enough income to support the loan even if conditions soften.

03

Does the leverage profile make sense for the asset and the market?

Conservative leverage provides room for operational challenges. High leverage amplifies risk.

04

How does the acquisition cap rate compare to the projected exit cap rate?

If the plan assumes selling at a more aggressive cap rate, returns rely on optimistic market conditions.

05

What is the clear story behind the deal, and how exactly is value being created?

If the narrative is unclear or depends on perfect execution, the risk increases.

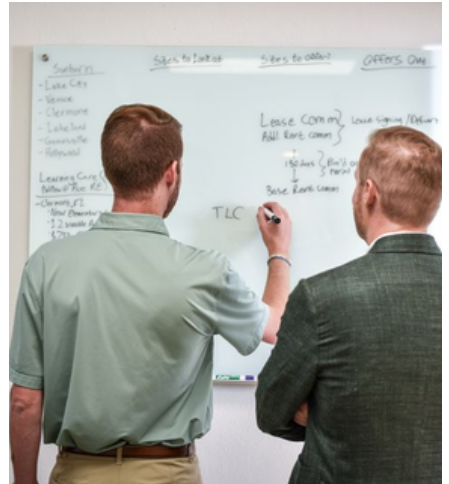
Downside Protection and Risk Management

Great investments perform well when things go right, but the strongest investments are built to remain stable even when they face challenges.

Downside protection is built in three layers:

- **Resilient Income:** Income generated by in-person, service-driven tenants is more consistent across cycles.
- **Staggered Lease Schedule:** When tenants expire at different times, the property is less exposed to market shifts.
- **Conservative Debt:** Fixed-rate loans and conservative leverage provide stability in changing rate environments.

Operators also run stress tests on the underwriting to see if the deal can withstand slower rent growth, higher expenses, or temporary vacancy.



How to Evaluate a Sponsor

Even the strongest real estate deal can fail in the hands of a weak operator. The sponsor's experience, discipline, and alignment with investors often matter more than any single property-level assumption.

Experienced investors look for a few key traits when evaluating a sponsor:

- **A Proven Track Record:** Evidence of their ability to execute a business plan across market cycles.
- **Clear and Transparent Underwriting:** Disciplined sponsors avoid overly aggressive assumptions.
- **Alignment of Interests:** Sponsors who invest meaningful personal capital in their own deals signal confidence.
- **Communication Quality:** Consistent updates, balanced reporting, and clear explanations of progress and challenges.
- **Financial Discipline:** Conservative loan structures and risk-aware decision-making.

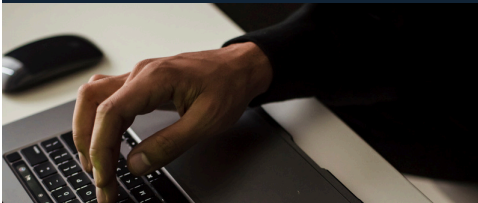
Remember: You invest in people first, then the real estate.

Thank You for Reviewing the Alakai Investor Blueprint

With more than **70+** acquisitions, **\$250M+** in commercial real estate transacted, and **\$120M+** in created value, our goal is to give investors clarity, transparency, and a framework to confidently evaluate opportunities.

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If you would like to review an example deal, discuss upcoming offerings, or ask questions about our strategy, our team is here to help.



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