



## Why Exit Assumptions Matter More Than They Seem

**How future sale assumptions can shape projected returns — and where risk often sits**

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In many real estate investments, a significant portion of the projected return is realized at the time of sale.

This is often referred to as the exit.

While interim cash flow contributes to overall performance, the exit value of an asset frequently plays a central role in determining total returns.

Because of this, the assumptions used to estimate that future value can have a meaningful impact on how an investment is evaluated.

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## What an Exit Assumption Represents

An exit assumption is the projected value of an asset at the time it is sold.

This value is typically based on:

- The expected income of the property at exit
- A capitalization rate (cap rate) applied to that income
- The timing of the sale

Together, these inputs determine the estimated sale price — and in turn, a large portion of the projected return.

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## Why Small Changes Can Have a Large Impact

Exit assumptions are highly sensitive.



Relatively small changes in inputs can produce meaningful differences in projected outcomes.

For example:

- A modest change in cap rate
- A slight variation in projected income
- A shift in timing

Each of these can materially affect the estimated sale value of the asset.

Because IRR is influenced by both magnitude and timing, these changes can also have an outsized impact on reported returns.

In many cases, the difference between an average investment and an attractive one can be driven more by exit assumptions than by in-place performance.

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## Where Risk Often Sits

The challenge with exit assumptions is that they are inherently uncertain.

They depend on factors such as:

- Future market conditions
- Capital availability
- Interest rate environment
- Investor demand at the time of sale

These variables are difficult to predict and, importantly, are outside of direct control.

As a result, investments that rely heavily on achieving a specific exit outcome can carry a higher degree of risk.

This is particularly true when:

- A large portion of the return is tied to sale proceeds
- The assumed exit conditions differ meaningfully from current market conditions
- The business plan requires favorable timing to succeed



## The Difference Between In-Place Performance and Exit-Driven Returns

A useful way to evaluate an opportunity is to distinguish between returns generated during the hold period and those dependent on exit.

- **In-place performance** is driven by current income and operations
- **Exit-driven performance** depends on future assumptions

Investments that rely more heavily on in-place performance tend to be more stable and predictable.

Those that depend on exit outcomes may offer higher projected returns, but also carry greater variability.

Understanding this distinction can help clarify where risk is concentrated within a deal.

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## How We Think About Exit Assumptions

We view exit assumptions as one component of the overall investment, but not the primary driver of returns.

Our focus is on:

- Strong in-place or near-term cash flow
- Business plans that improve operations rather than rely on market timing
- Exit assumptions that are grounded in current or conservative market conditions

Rather than underwriting performance based on a specific future outcome, we prioritize investments where returns are supported by what is already in place.

From that foundation, any additional value realized at exit becomes incremental rather than essential.

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## Balancing Realism and Discipline

Every investment requires some level of forward-looking assumptions, including the exit.

The objective is not to eliminate these assumptions, but to approach them with discipline.

This typically involves:

- Avoiding overly optimistic projections
- Stress-testing different scenarios
- Understanding how sensitive returns are to changes in exit conditions

By doing so, investors can better assess whether projected returns are durable or dependent on favorable circumstances.

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## Final Considerations

Exit assumptions play a central role in real estate investing, but they are also one of the least controllable elements of an investment.

For that reason, it is often helpful to evaluate opportunities based on what is known today, rather than what must happen in the future.

In many cases, the strength of an investment is less about achieving a specific exit outcome and more about the underlying performance that supports it along the way.