Real Estate Financial Modelling Case Study

Key Steps

Mastering
Real Estate Financial Modelling

Becoming an advanced financial modeller is essential for anyone pursuing a career in real estate investments.

In this post, we break down a typical case study from real estate private equity funds, providing insights and strategies to excel in financial modelling.

Understanding the Case Study

A real-life case study usually includes:

1   Analysis of an asset or portfolio of assets

2   Modelling tasks with related questions

3   Creating dynamic cash flow projections

4   Interpretation of key investment metrics

These components are designed to evaluate your technical skills and analytical thinking

Creating Pro Forma Cash Flows

The first task is to create a pro forma cash flow model in Excel. You will be provided with:

→ PURCHASE PRICE

→ REVENUE AND EXPENSES

→ CAPITAL COSTS

→ LOAN TERM

→ SALE ASSUMPTIONS

You need to build dynamic projections for a period of 5-10 years, ensuring your model updates automatically with any changes in assumptions

Calculating Key Metrics

Once the monthly cash-flows have been completed, you will calculate key investment metrics. The most common are:

1. INTERNAL RATE OF RETURN

2. MULTIPLE ON INVESTED CAPITAL

3. DEBT SERVICE COVERAGE RATIO

4. CASH-ON-CASH RETURN

5. DEBT YIELD

These metrics are crucial to evaluate investment performance

Evaluating Debt Impact

It's essential to understand the impact of debt on investment performance. You'll calculate key metrics on both:

Unlevered Basis	Levered Basis
All–equity investment	Including debt

By comparing the unlevered with the levered returns, you can easily understand the impact of debt on performance

Performing Advanced Analysis

Many case studies require additional analysis through sensitivity tables and goal seek analysis.
You'll examine the impact of various assumptions, such as:

EXIT RATE

HOLD PERIOD

GROWTH RATE

LOAN AMOUNT

This step tests your ability to analyze how changes in assumptions affect the investment's outcome

Modelling Equity Waterfalls

In more advanced tasks, you might need to model Joint Venture (JV) equity partnership structures. This involves:

1   Calculating IRR-based preferred returns

2   Distributing cash flows over preferred returns

3   Understanding promoted interest percentage

Equity waterfalls ensure alignment of interests between GPs and LPs, adding more complexity to the financial model

Interpreting and Explaining Your Model

Finally, the case study often concludes with a qualitative analysis. This involves:

→ **Identifying potential downsides**

→ **Suggesting risk mitigation strategies**

→ **Determining an appropriate valuation**

→ **Making an investment recommendation**

This step demonstrates your ability to think critically and present a well-rounded analysis

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