Financing and Loan Analysis for Investment Real Estate (ASM603) Learning Objectives

Lesson 1: The time value of money

In order to achieve the owner's financial goals and fulfill your fiduciary obligations to the client, it is important to understand the concept of the time value of money, which is: Dollars in the future are worth less than dollars today. Long-term income streams must be discounted back to present value to determine their true net present value.

In this lesson, you will learn how to:

- Define the time value of money
- Compare income streams using compounding and discounting
- Organize data using T-bars and timelines

Lesson 2: Financing and loan packages

An investor can borrow a major portion of the purchase price of a property. Consequently, financing plays a large role in making decisions about real estate.

In this lesson, you will learn how to:

- List common sources of investment real estate loans
- Detail the elements of a loan package used to secure financing

Lesson 3: Loan structures and fees

Financing for a property may be required for acquisition, major replacements, and renovations. Thus, one of a real estate manager's responsibilities may be to compare loan options in order to select the most advantageous loan structure form available. To do this, the real estate manager must understand the various types of loans that can be obtained in the marketplace today.

In this lesson, you will learn how to:

- Define common loan types
- List fees associated with financing

Lesson 4: Loan calculation

Although few real estate managers make decisions about financing on their own, an understanding of loan calculations leads to better decision making, assessment of financial condition, and knowledge of how a property operates.

In this lesson, you will learn how to:

- Compare financial calculation tools
- Calculate principal and interest on several types of loans
- Calculate effective interest rate

Lesson 5: Loan analysis

Equity holders and lenders alike invest in real estate because the returns are higher than those from "safe investments," such as government securities. When evaluating a potential loan recipient, lenders examine a number of aspects of the potential borrower and of the property itself and weigh risks associated with financing. This is why the loan package needs to be complete and meet lender criteria.

In this lesson, you will learn how to:

- Define and calculate lender ratios
- Determine leverage position
- Conduct a break-even analysis

Lesson 6: Lender rights and recourses

Measuring risk helps lenders avoid making bad loans. However, even with all the best risk measures in place, lenders must have ways to protect themselves if a loan does not perform as desired or becomes delinquent. This could impact your property if it is not performing well and cannot meet debt obligations.

In this lesson, you will learn how to:

- Describe liens
- Explain loan workout arrangements