Building a Financial Model

For a Real Estate Development Project

Summary

This course reviews real estate project finance concepts and focuses on the skills required to design and create a model to help finance professionals evaluate a real estate development investment.

In the course we review a case study for a mixed-use development project and examine concepts including model design, logic, project timing and various phases and various financing structures. Various intermediate and advanced Excel tools along with helpful keyboard shortcuts will also be covered throughout the course.

Prerequisites

Participants should have a basic working knowledge of Excel and the real estate sector prior to taking this course.

Timing

This course requires 1 day.

Learning Topics

1. **Design and Structure a Real Estate Development Project Model**
   - ✓ Design a clear and logical financial model
   - ✓ Lay out all necessary assumptions
   - ✓ Model various project phases
   - ✓ Use date functions and binary flags to manipulate model cash flows and flexibly manage timing in the model
   - ✓ Design a powerful scenario manager
   - ✓ Construct financial statements and schedules:
     - Construction schedule
     - Revenue schedule including occupancy, rental and other income
     - Cost schedules including operating and maintenance expenses
     - Detailed Sources and Uses schedule
     - CAPEX in the various project phases
   - ✓ Calculate important metrics including Net Operating Income, Cash Flow for Debt Service, Levered and Unlevered Free Cash Flow

2. **Incorporate Advanced Capital Structure Features**
   - ✓ Layer in financing structure
     - Equity and timing considerations
     - Construction loan and take out
     - Financing costs – interest rates, fees, etc.

3. **Sensitize and Evaluate the Project**
   - ✓ Explore optimization and self-auditing techniques
   - ✓ Set-up financing sensitivity analysis – revenue reductions, cost overruns, interest rate risk, etc.
   - ✓ Incorporate a schedule to evaluate project returns
     - Net Present Value (“NPV”)
     - Levered & Unlevered Internal Rate of Return (“IRR”)
   - ✓ Build a strong summary page to display the results