INSTITUTE OF REAL ESTATE MANAGEMENT

Performance and Valuation of Investment Real Estate (ASM604) Learning Objectives

Lesson 1: Financial performance

The owners you represent will have specific criteria for investment return on their cash equity. Four common calculations are used to measure investment return. The most significant test(s) will vary in each situation based on the individual investor's goals for the asset.

In this lesson, you will learn how to:

- Define and calculate cash-on-cash return, value enhancement, NPV, and IRR

Lesson 2: Property valuation

In a sense, all of real estate finance is a study of valuation—how much a property is worth. The single most important contribution that you, as a real estate manager, makes is to build value for an investor—something that management staff can influence on a daily basis.

In this lesson, you will learn how to:

- Define highest and best use
- Compare three common valuation methods
- Derive the cap rate using several methods
- Apply equity capitalization to determine investment value

Lesson 3: Discounted cash flow analysis

When a property's income stream is not stable, which can happen in real estate, each year's cash flow must be discounted individually to its present value for a more accurate appraisal. Using DCF analysis for property valuation requires discounting income streams by a rate found in the market or from your own particular owner.

In this lesson, you will learn how to:

- Outline the components used to conduct a discounted cash flow analysis
- Calculate market value using DCF analysis

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Lesson 4: Lease analysis

Many of the concepts discussed thus far can also be applied to analysis of leases. Discounted cash flow analysis is a key tool to determine the financial impact lease terms and concessions have on property income. The real value of leases drives cash flow, which in turn drives property value.

In this lesson, you will learn how to:

- Calculate effective rent on short- and long-term leases
- Compute buyout costs for early lease terminations
- Compare lease proposals with a variety of terms