

**RE 618 / Fin 618 – Real Estate Investment Analysis**  
Homework – Commercial Property Finance

*Dr. Stanley D. Longhofer*

- 1) Consider a property with a first-year expected NOI of \$450,000 that can be purchased for \$5.6 million. Financing is available with a 10-year balloon loan amortized over 20 years at 7 percent interest. The lenders maximum loan-to-value (LTV) ratio is 75 percent and its minimum debt-coverage ratio (DCR) is 1.3.
  - a) Based on the debt-coverage ratio, what is the largest loan this lender will provide on this property?
  - b) What is the largest loan available based on the LTV ratio?
  - c) Taking both of these restrictions into account, what is the most the lender will loan on this property?
  - d) Based on this loan amount, what is the DCR of this loan?
  - e) Does this investment exhibit positive, negative or neutral financial leverage? How do you know? What does this imply about this investment?