



COURSE 09 / Beginner / Intermediate / 25-30 min

Commercial Real Estate Financing Basics

Branded cheat sheet: the calculations and decisions to keep beside your next scenario.

Core decision checklist

1. Calculate NOI and distinguish it from gross rent.
2. Understand cap rate, DSCR and debt yield.
3. Evaluate leases and cash-flow durability.
4. Read amortization, maturity and recourse terms.

Worked examples at a glance

01 Read the Operating Statement and NOI

Annual potential rent is \$150,000. Vacancy and credit loss are \$10,000, leaving \$140,000 effective income. Operating expenses of \$55,000 produce \$85,000 NOI. With \$60,000 annual debt service, cash before capital work and investor tax is \$25,000, assuming no other adjustments.

02 Cap Rate, DSCR and Debt Yield

NOI is \$90,000 and cap rate 6%, implying \$1,500,000 value. A \$1,000,000 loan has 9% debt yield. If annual debt service is \$72,000, DSCR is 1.25. At a 7% cap rate, indicated value falls to about \$1,285,714 even though NOI has not changed.

03 Evaluate Leases and Income Durability

A building receives \$120,000 annual rent; one tenant contributes \$72,000 and expires next year. That tenant provides 60% of rent. If renewal requires \$30,000 tenant improvements and \$6,000 commissions, the investor needs a \$36,000 leasing plan before considering any vacancy period or rent concessions.

04 Read Amortization, Maturity and Recourse

A \$1,000,000 loan at an illustrative 7% amortized over 25 years has about \$7,068 monthly principal and interest. If it matures after five years, roughly \$912,000 remains due. The 25-year amortization does not mean a 25-year commitment; the borrower needs a balloon repayment plan.



Apply it to your deal

Use documented inputs. Keep lender qualification, investment economics and cash timing visible as separate calculations.

Practice before submitting

Read the Operating Statement and NOI

Build an annual operating statement from a sample rent roll. Separate operating expenses, debt service and capital improvements. Compare seller figures with current tax and insurance evidence. Label every stabilization assumption and ask which adjustments the lender makes to reach its underwritten income figure.

Read Amortization, Maturity and Recourse

Read a term sheet and mark rate basis, amortization, maturity, prepayment and guarantees. Estimate the maturity balance with a payment schedule. Test refinancing with lower NOI or value. Ask legal counsel to explain guarantee and carveout provisions and identify any consent requirements affecting a sale.

Quick glossary

Effective income: Income after vacancy, concessions and collection loss.

NOI: Operating income after operating expenses, before debt service.

Pro forma: Forecast financial statement with stated assumptions.

Cap rate: NOI divided by value under stated assumptions.

Debt yield: Defined income divided by loan amount.

DSCR: Defined income divided by debt service for a consistent period.

Rent roll: Summary of tenants, rents and lease dates.

Rollover: Lease expirations and renewal events.

Primary-source reading

FDIC: commercial real estate lending

Fannie Mae: multifamily underwritten DSCR

These sources provide context, not universal program requirements. Formulas, eligible costs, qualifying income, seasoning and fees depend on the transaction. Examples are illustrative and are not actual loan offers.