

Real Estate Analyst Interview Questions And Answers Guide.



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Real Estate Analyst Job Interview Preparation Guide.

Question # 1

Tell me what is the difference between rental yield and cap rate?

Answer:-

Rental yield is the net amount of money a landlord receives in rent over one year (after deducting operating expenses), shown as a percentage of the amount of money invested in the property.

So, Rental Yield = (Net Annual Rental Income / Cost) X 100

Note that rental yield is calculated on Net Operating Income without considering interest payment, tax and depreciation.

Cap rate (or capitalization rate) is the ratio between the net operating income produced by a real estate asset and its cost (or current market value).

So, Cap Rate = Net Operating Income / Value (or cost)

If you notice, both rental yield and cap rate appears to be same!

Rental yield is used to calculate the yield (return) of an asset whereas the cap rate is used to find the value (capitalized value) of an income generating real estate asset.

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Question # 2

How to calculate the cost of equity?

Answer:-

Cost of equity is the return a firm theoretically pays to its equity investors. Capital Asset Pricing Model (CAPM) is the most commonly used method of determining the appropriate cost of equity. According to CAPM:

Cost of Equity, $Re = Rf + b(Rm - Rf)$, where;

Re = Cost of Equity

Rf = Risk-free rate of return

Rm = The historical return of the stock market / equity market

b = is a number describing the correlated volatility of an asset in relation to the volatility of the benchmark that said asset is being compared to.

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Question # 3

Explain me through how you analyzed the last project you worked on?

Answer:-

As I pointed in the previous post, this question may lead to many others and it gives you an opportunity to tell your story.

I think you should think about the projects you have worked on and chose the most challenging one. Write a short note before interview, covering the followings:

- * Project description - location and size
- * In what capacity you were involved in the project? Define your role and responsibility clearly
- * Reporting structure
- * Biggest challenge you faced on this project
- * How you solved that challenge?
- * What is the current status of the project?

It will be a good idea to write this one day prior to the interview so that you are clear in your mind, and can answer the questions with confidence.

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Question # 4

Tell me why Real Estate?

Answer:-

Probably the most important question you will get. You NEED to come off as passionate. Employers do not want someone who "thinks" they want to go into real estate. It is a specific industry and the players are passionate so you should be too. And if you aren't then you should probably stop reading this blog. The key is to easily tell a story about your interest in real estate. Instead of saying the classic "real estate is tangible" line, try something different. Personally, I like the fact that when you go out and meet someone, perhaps the first thing that comes up is where they live on campus. And what most certainly always follows is "what do you pay in rent?" Real Estate is an asset class that is unique in this respect. You don't walk up to someone and say "Hey how much money do you have in variable annuities?" Real Estate unlike traditional Finance is discussed in real life!

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Question # 5

Explain what is levered IRR?

Answer:-

A levered IRR is just the Internal Rate of Return when you take financing into account. So basically you run a DCF, take out interest payments and calculate the IRR over the hold period. This will be higher mainly because taking on debt juices your returns and more specifically the first year cash flow will be lower because you have debt.

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Question # 6

Tell me what do you look for in a possible real estate investment?

Answer:-

This totally depends but you might want to go with something that creates value and provides above average returns to investors. Maybe you purchase it at a discount to replacement cost, lease it up, stabilize the asset, and then sell it.

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Question # 7

What is a promote?

Answer:-

It is really just the disproportionate share of the fund's profit (achieved by above average returns) which the GP receives thus incentivizing them to perform better in their role.

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Question # 8

Tell me what is your favorite Excel formula?

Answer:-

There are many formulas you could mention to show your knowledge but the one's that the interviewer is looking for are VLOOKUP, CONCATENATE, IF, SUMIF, and MATCH. If you mention any one of these it will separate you from the rest of your fellow undergraduates.

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Question # 9

Suppose if a project has zero NPV and the discount rate is 10%; what will be the project IRR?

Answer:-

By definition IRR is the discount rate at which the project NPV equals zero. Hence the project IRR will be 10%.

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Question # 10

Tell me in calculating project IRR should we consider financing cash flow?

Answer:-

No, project IRR doesn't take into consideration the financing cash flows. Equity IRR does.

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Question # 11

Tell me if you have to decide a project's merit on the basis of only one performance indicator, which indicator will you choose?

Answer:-

IRR!

Why? Because it is easiest to calculate and least prone to subjective judgment error.

Hope you enjoyed this post on the real estate analyst interview. Use the comment section below to add any more questions to the list.

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Question # 12

Tell me why would two Class A office buildings across the street from each other sell for different prices?

Answer:-

Discuss building construction, amenities, management, credit quality of tenant's, age, environmental factors, occupancy, etc.

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Question # 13

Explain what driver's of value are you looking at for Office, MF, Hotel, Industrial, Retail, Self-Storage, Medical Office, and Senior Housing?

Answer:-

- * Office- GDP, Employment, and access to transportation.
- * MF- Population (20-35), housing affordability, and employment.
- * Hotel- Tourism, GDP, Employment
- * Industrial- GDP, Employment, and Manufacturing
- * Retail-Employment, GDP, Income



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- * Self-Storage- GDP, Employment, Single Family Housing
- * Medical Office- Elderly population, transportation, health care employment
- * Senior Housing- Same as medical office but just look at employment

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Question # 14

Tell me what is closed-end fund? Open end?

Answer:-

Closed- end means that the fund is limited in life. The investment managers must make acquisitions, manage, and enhance their assets, within a given time period. Open-end means that the investment period is infinite and the fund will achieve success through cash flow, sales, and equity offerings.

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Question # 15

Tell me what are the prevalent area measurement methodologies? Why should you use RICS and not BOMA?

Answer:-

RICS and BOMA are the two most commonly used area measurement standard in the industry. RICS is the area measurement standards from Royal Institution of Chartered Surveyors, whereas BOMA is the area measurement standards from Building Owners and Managers Association, USA.

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Question # 16

Tell me what are the best / worst performing asset classes in the current market situation? Why one should invest in these assets or why not?

Answer:-

In any given market, one asset will be better performing than others. Assume in my area, hotel is the worst performer and residential is the best performer. But a developer cannot just keep building residential assets, as soon oversupply will make it the worst performing asset. Also, a large development cannot be successful without having a proper mix of various assets.

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Question # 17

Tell me how do you value a building?

Answer:-

3 approaches again. Talk about credit quality of tenant's also.

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Question # 18

What is the relationship between IRR, NPV, and the discount rate?

Answer:-

The IRR is the discount rate that makes the NPV zero. Boom!

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Question # 19

Tell me why should choose one over other?

Answer:-

There can be various reasons, but we should go with the industry practice in our area of operation.

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Question # 20

Walk me through your resume now?

Answer:-

Practice this one over and over. Try to make it roughly 2-4 minutes. Go in order of most important. The key is to highlight not only what you did, but how it has shaped your skill set for the position. For example if you worked in brokerage but are applying for an analyst role at a private equity shop, discuss your knowledge of the markets and ability to understand tenant demands and lease structure. These are valuable skills that analysts need to have.

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Question # 21

Tell me with interest rates so low these days what do you see in store for real estate investing and more specifically acquisitions and dispositions activity?

Answer:-

You need to mention two things. One is the ease of financing. A deal might not be deal without the ability to lock in artificially low rates. Two, discuss investor sentiment. By that I mean that investors are searching for yield with rates so low, and will be looking to real estate to provide that consistent cash flow and above average risk adjusted return.

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Question # 22

What is a cap rate?

**Answer:-**

Cap rate = NOI/ Value

A high cap rate is associated with a riskier property or market, and a lower cap rate is a more stable property or market. Cap rate is also the discount rate minus growth rate. Another way to look at this would be from an investor POV. An investor will require some rate of return on their investment, called the discount rate. They will expect to receive the cap rate + some growth in the property. This is just a rearranged version of the previous formula. {Cap Rate = Discount Rate - Growth} or {Discount Rate = Cap Rate + Growth}

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Question # 23

Explain me in mixed-use development how do you allocate the infra cost / land cost / service charge?

Answer:-

Infra cost and land cost can be allocated on the basis of gross floor area (GFA), net sellable area (NSA) or in proportion to the projected revenue.

Service Charges can also be allocated on similar basis.

I personally prefer the allocation based on GFA as it makes life easier (accounting reasons).

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Question # 24

Walk me through a DCF?

Answer:-

This is a short answer, but basically a DCF is a way to project out future cash flows and discount those CF's back to present value. You are saying that this property is something that is going generate income (while having operating expenses) over some period of time fluctuating with market conditions, and that this potential needs to be taken into consideration when valuing the building.

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Question # 25

Explain what do you think is the most important statement of a company?

Answer:-

This is more of a debt side question you would get when looking at tenant quality. You want to look at the cash flow statement to understand how the company makes money and generates cash flow. It will also allow you to analyze growth prospects and market share. Of course the Income Statement (Revenue and Expenses) and the Balance Sheet are very important also. When it comes to analyzing key ratios and debt structure look at the balance sheet. But the real estate industry is about Cash and having the ability to generate cash is king.

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Question # 26

Tell us do you know how to structure a joint venture?

Answer:-

Basically what a JV does is provide a co-investment by multiple parties to fund a real estate deal. This could be a general partnership, limited partnership, or an LLC. Ultimately it is simply a way to link money (capital) providers and people who specialize in real estate services. What a JV tries to accomplish is utilize this link to provide all parties with above average risk adjusted returns and also assess structuring details with regards to a if the deal goes bad.

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Question # 27

Explain me where would you put your money in Real Estate?

Answer:-

Have a succinct answer for this. Know who you are interviewing with. If the company invests in value-add deals in Oklahoma do not say that you would put your money in a REIT like Vornado. Try to be clear which part of the capital stack you are investing in. Are you putting money into Public debt, private equity, public equity, or private debt? This structured response will be clear to the interviewer and show a sound thought process. Try to mention diversification!

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Question # 28

Please explain what is the impact of depreciation on the project IRR?

Answer:-

No impact. Project IRR is calculated on the basis of cash flow and depreciation is a non-cash flow item.

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Question # 29

Tell me what is an IRR?

Answer:-

The IRR is the discount that makes your NPV zero. It is metric used to analyze investor returns and is often associated with IRR hurdle rates and promotes.

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Question # 30

Tell me how would you value the Willis Tower?

Answer:-



Shortly, just mention a few approaches. Run a DCF to take into account future cash flows, use comps in the market, and look at what it would cost to replace the building.

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Question # 31

Explain me what is an equity multiple?

Answer:-

An equity multiple is another metric used to analyze investor returns. It is calculated as the sum of total cash distributed to the investor including appreciation from sale over the holding period divided by the initial investment.

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Question # 32

Explain me what is your favorite property type and why?

Answer:-

Here is your opportunity to discuss your passion. Maybe you love hotels because of the complex structure with the operating partner and the cyclical nature of the asset class, which might present opportunities that other food groups do not. Or maybe you love multi-family because you are most familiar with it and you like the growth prospects with more people renting and the shift to urban areas.

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Question # 33

Do you know a waterfall structure?

Answer:-

A waterfall is a structure that provides incentive to the GP or developer. The GP will get some percentage of cash flows up to a certain IRR hurdle rate, and then will get an increasing percentage of cash flows once the IRR hits additional hurdle rates.

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Question # 34

Tell us about your self?

Answer:-

This is your opportunity to show your personality. Do not ramble, but rather provide a succinct explanation of who you are as a person, what you like to do, and THEN transition that into real estate. For example you might be a very outgoing person who enjoys staying busy and doing a lot outside of school. Talk about this and how it relates to involvement with the program. Maybe you have done multiple case competitions, traveled, taken the REIT course (shameless plug), or have a position in Real Estate Club.

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