

Joe Borgstrom, Principal

REAL ESTATE MATH

## PRO FORMA 101 A pro forma is a financial projection of a real estate project

# PRO FORMA 101 Construction Pro Forma **Operating Pro Forma**



## CONSTRUCTION PROFORMA Sources- Where money is coming from Uses- Where money is being spent

### CONSTRUCTION PROFORMA

Sources:

Senior Debt

**Subordinated Debt** 

**Equity-Cash** 

Grants

**Equity- Tax Credits** 

**Deferred Fees** 

### CONSTRUCTION PRO FORMA

USES	Amount	% of Project
Senior Debt Lake Trust Credit Union	\$1,000,000	47.6%
Subordinated Debt County Revolving Loan Fund	\$80,000	3.8%
<u>Equity- Cash</u> Owner	\$400,000	19%
Equity- Tax Credits Bank of America	\$520,000	25%
<u>Deferred Developer Fee</u> Owner	\$100,000	4.6%
Total	\$2,100,000	100%

#### CONSTRUCTION PROFORMA

#### • KEY ISSUES:

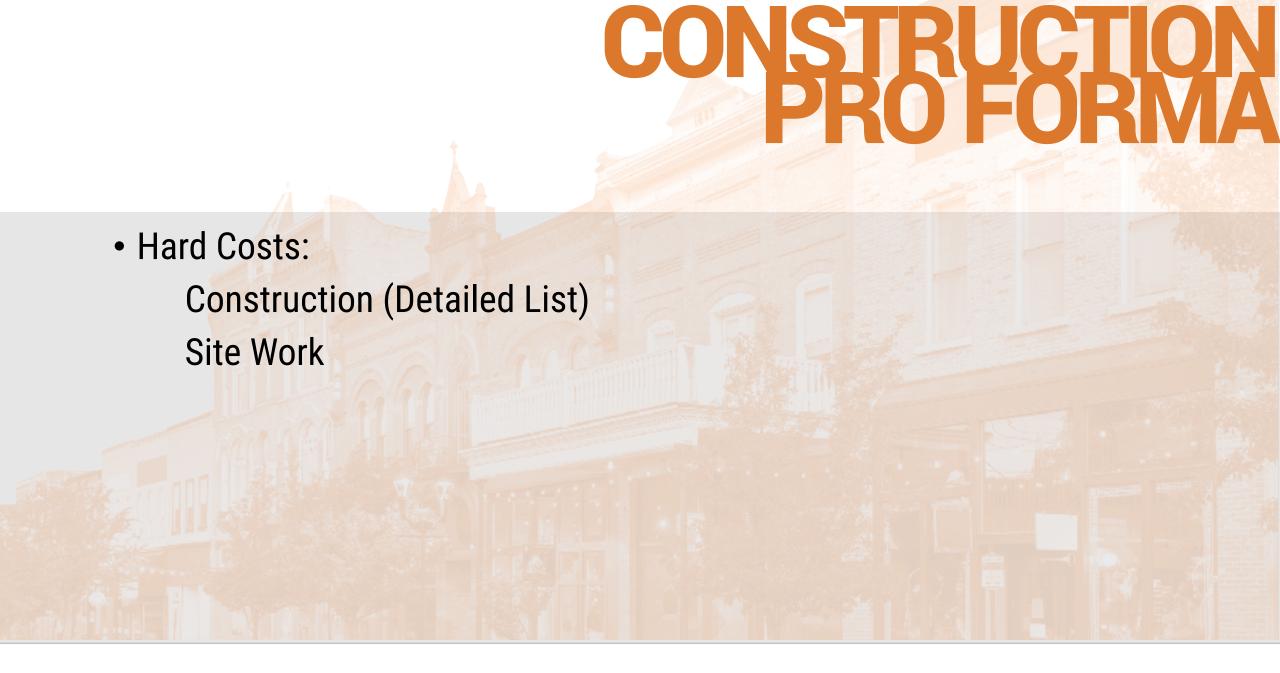
Lenders may not want to be only debt source -or- want more cushion

- May fund 80% of a strip mall but only 50% of a downtown building

Locally-based lenders are typically easier to work with

Lack of comparable projects ("comps")



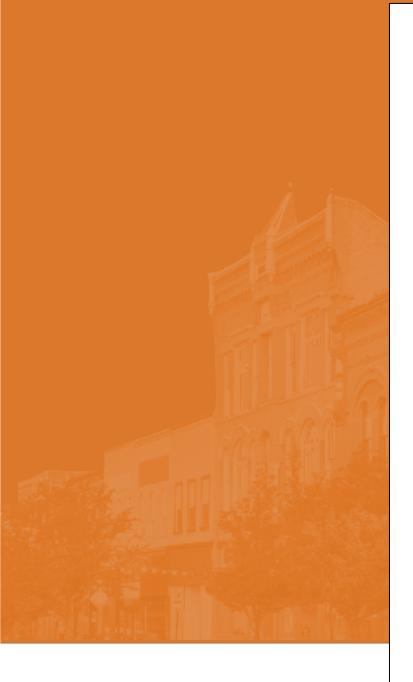


## CONSTRUCTION PROFESION • Soft Costs: Planning, Design **Permit Fees** Overhead **Developer Fee**

123 Main St							
<b>Current Config</b>	guration	4,150	Two Story Mixed-U	Jse			
<b>Potential Red</b>	evelopment	Mixed-Use					
Redevelopme	nt Costs						
	Acquisition		Listing Price	*			
	Rehab	\$ 820,000		*			
1	New Constrution	\$ -					
	Developer Fee						
	Total Acquisition and Rehab	\$ 820,000					
Redevelopme	nt Incentives						
	State HTC	\$ (205,000)	25%				
	Federal HTC	\$ (164,000)	20%				
	Local Incentive		Add'l Incentive				
2	Total Incentives	\$ (369,000)					
	Net Investment	\$ 451,000					
	Equity	\$ 164,000	20% Owner Equity				
	Loan Amount	\$ 287,000					
Income		Annual Gross Rent	Units	Sq Ft	Total Sq Ft	Monthly Rer	nt per Unit
	Retail Units	\$ 15,000	1	1,000	1,000	\$	1,250
	Office Space	\$ 36,000	3	1,000	3,000	\$	1,000
3	Total Annual Income	\$ 51,000					
	Annual Debt Service	\$ (24,674)	6%	*			
	Gross Cash Flow	\$ 26,326					
	Annual Operating Expenses	\$ 15,000	Taxes, Insurance ar	nd Maintenand	ce to be calcul	ated	
	Net Cash Flow	\$ 11,326					
	Return on Investment	4%					
Natas							

#### Notes

<sup>\* =</sup> Key cost variable and dependent on negotiation



TOTAL DEVELOP	PMENT COSTS	Amount	% of TDC
Acquisition			
Land		\$35,000	0.98%
Building(s)			0.00%
Other:			0.00%
	Subtotal Acquisiton	\$35,000	0.98%

					Ineligible	Elizable Desir
Hard Costs  Public Infrastructure (roads, sidewalks, utilities, sewag	1		\$0	0.00%	Amt.	Eligible Basis
Site Improvements (walks, drives, landscaping, fencing		rainaga)	\$55,000	1.55%	\$0	\$55,000
Demolition (Include Lead & Abestos Abatement)	g, site lighting, and di	alliage)	\$13,200	0.37%	\$0	\$13,200
Other Environmental Mitigation			\$13,200	0.00%	\$0	\$13,200
Earth Work				0.00%	\$0	\$0
Site Utilities				0.00%	\$0	\$0
Other:				0.00%	\$0	\$0
Other.	New	Rehabilitation		0.00%	30	30
	Construction	Renovation				
Structures +	\$0	\$2,074,522	\$2,074,522	58.29%	\$0	\$2,074,522
Building Concrete/Masonry	50	\$129,402	\$129,402	3.64%	\$0	\$129,402
Carpentry		3123,402	\$123,402	0.00%	50	\$125,402
Roofing/Metal/Siding/Insulation/Caulking		\$14,000	\$14,000	0.39%	50	\$14,000
Doors/Windows/Glass		\$221,900	\$221,900	6.24%	50	\$221,900
Drywall/Acoustical		\$115,956	\$115,956	3.26%	\$0	\$115,956
Floorina		\$115,956	\$135,832	3.82%	50	\$135,832
Cabinets/Countertops/Applicances		\$396,000	\$396,000	11.13%	50	\$396,000
Painting/Decorating		\$72,456	\$72,456	2.04%	\$0	\$72,456
Plumbing/Electrical/Fire Protection		\$580,356	\$580,356	2.04% 16.31%	50	\$580,356
HVAC		\$402,240	\$402,240	11.30%	\$0	\$402,240
Accessory Buildings/Garages		\$402,240	\$402,240 \$0	0.00%	\$0	\$402,240
Elevators/Special Equipment			\$0	0.00%	50	\$0
Tenant Upgrades			\$0	0.00%	\$0	\$0
Other: Signage -		\$6,380	\$6,380	0.18%	\$0	\$6,380
Builder Overhead/Profit/General Requirements	50	\$121,567	\$121,567	3.42%	\$0	\$121,567
Permits/Tap Fees/Bond/Cost Certification	\$0	\$5,000	\$5,000	0.14%	\$0	\$5,000
Construction Contingency	\$0	\$269,501	\$269,501	7.57%	\$0	\$269,501
Other: Stairwells/Storage	50	\$203,301	\$209,301	0.00%	\$0	\$209,301
Subtotal Hard Costs	- 30	30	\$2,538,790	71.34%	30	30
Subtotal Hard Costs			\$2,536,750	71.34%		
Other Eligible Costs						
Machinery & Equipment				0.00%	\$0	\$0
Furniture & Fixtures				0.00%	\$0	\$0
Architectural & Engineering			\$160,000	4.50%	\$0	\$160,000
Environmental Studies/Soiling Testing			\$2,700	0.08%	\$0	\$2,700
Survey			\$1,000	0.03%	\$0	\$1,000
Other:				0.00%	\$0	\$0
Subtotal Eligible Soft Costs			\$163,700	4.60%	-	

#### **Ineligible Soft Costs** \$164,650 Other Professional Fees \$38,030 1.07% Override Loan Fees Construction Interest mos. \$79,470 2.23% \$79,470 Construction Taxes 0.00% Construction Insurance 0.00% \$5,000 0.14% MEDC Fees 0.00% Title Work mos. \$0 Rent-Up Reserve 0.00% Replacement Reserve 0.00% Operating Reserve \$328,250 9.22% Other: 0.00% Other: 0.00% 0.00% Other: Other Ineligible Soft Costs - Related Party Fees \$130,905 3.68% Developer Fee 0.00% Project Management Fees Construction Management Fees (Related Party) 0.00% \$25,000 0.70% Constulting Fees 0.00% Other Related Party Fees Other: Developer Overhead \$50,000 1.40% \$821,305 23.08% Subtotal Ineligible Soft Costs

\$3,558,795

100.00%

TOTAL DEVELOPMENT COSTS



**PLACE + MAIN** 

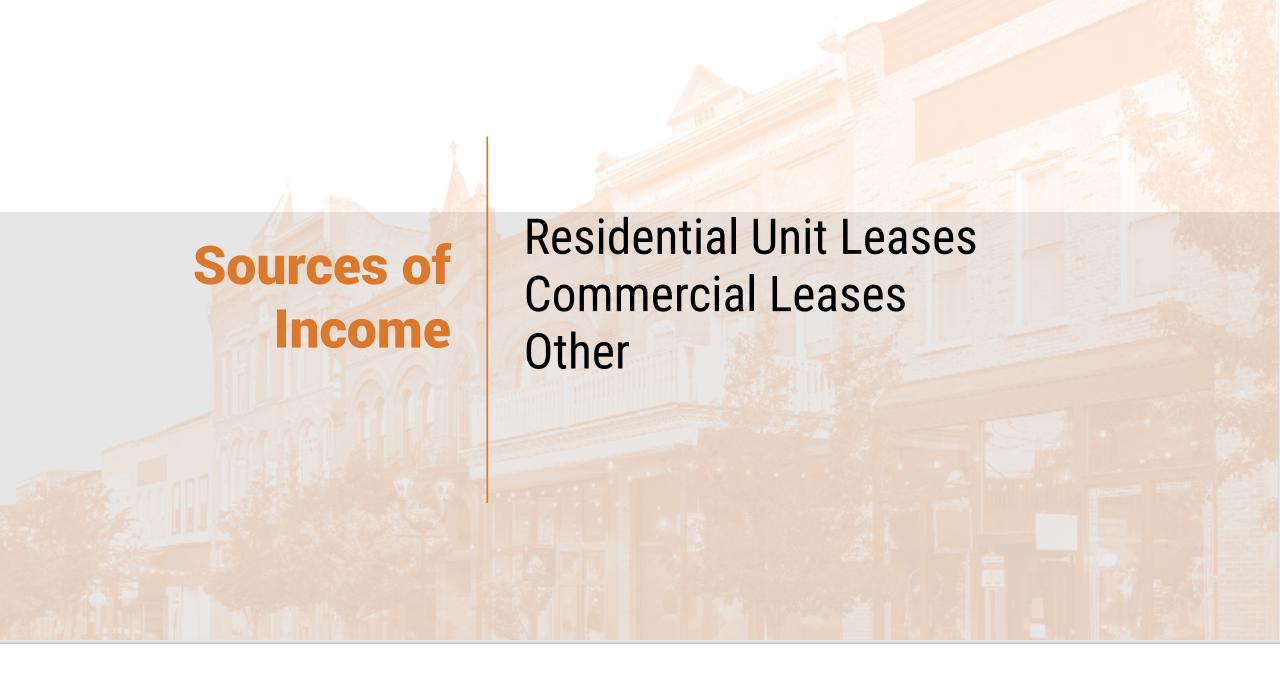
A B C D E F	G	Н	l J	K L M	N	0
Acquisition						
Land			\$35,000	1.13%		
Building(s)			,	0.00%		
Other:				0.00%		
Subtotal Acquisiton			\$35,000	1.13%		
					neligible	
lard Costs	1		40	0.00%	Amt. \$0	Eligible Basis \$0
Public Infrastructure (roads, sidewalks, utilities, sew		d design and	\$0,000 \$50,000	1.62%	\$0	\$50,000
Site Improvements (walks, drives, landscaping, fend Demolition (Include Lead & Abestos Abatement)	ing, site ignong, an	d drainage)	\$18,200	0.59%	\$0	\$18,200
Other Environmental Mitigation			<b>♦10,200</b>	0.00%	\$0	\$0
Earth Work				0.00%	\$0	\$0
Site Utilities				0.00%	\$0	\$0
Other:				0.00%	\$0	\$0
outer.	New			0.00%	***	40
	Construction	RehabilitationRenovation				
Structures	\$0	\$2,057,902	\$2,057,902	66.72%	\$0	\$2,057,902
Building Concrete/Masonry	***	\$129,402	\$129,402	4.20%	\$0	\$129,402
Carpentry		\$120,702	\$0	0.00%	\$0	\$0
Roofing/Metal/Siding/Insulation/Caulking			\$0	0.00%	\$0	\$0
Doors/Vindovs/Glass		\$225,900	\$225,000	7.0254	20	4225,000
Drywall/Acoustical		\$115,956	\$115,956	3.76%	\$0	\$115,956
Flooring		\$135,832	\$135,832	4.40%	\$0	\$135,832
Cabinets/Countertops/Applicances		\$396,000	\$396,000	12.84%	\$0	\$396,000
Painting/Decorating		\$72,456	\$72,456	2.35%	\$0	\$72,456
Plumbing/Electrical/Fire Protection		\$580,356	\$580,356	18.81%	\$0	\$580,356
HVAC		\$402,000	\$402,000	13.03%	\$0	\$402,000
Accessory Buildings/Garages		******	\$0	0.00%	\$0	\$0
Elevators/Special Equipment			\$0	0.00%	\$0	\$0
Tenant Upgrades			\$0	0.00%	\$0	\$0
Other: Stairvells/Storage Areas —		\$0	\$0	0.00%	\$0	\$0
Builder Overhead/Profit/General Requirements	\$0	\$322,084	\$322,084	10.44%	\$0	\$322,084
Permits/Tap Fees/Bond/Cost Certification	\$0	\$5,000	\$5,000	0.16%	\$0	\$5,000
Construction Contingency	\$0	\$200,000	\$200,000	6.48%	\$0	\$200,000
Other:	\$0	\$0		0.00%	\$0	\$0
Subtotal Hard Costs			\$2,653,186	86.01%		
Other Eligible Costs						
Machinery & Equipment				0.00%	\$0	\$0
Furniture & Fixtures				0.00%	\$0	\$0
Architectural & Engineering			\$160,000	5.19%	\$0	\$160,000
Environmental Studies/Soiling Testing			\$2,700	0.09%	\$0	\$2,700
Survey			\$1,000	0.03%	\$0	\$1,000
Other:			41,000	0.00%	\$0	\$0
Subtotal Eligible Soft Costs			<b>\$163,700</b>	5.31%	40	+0

**PLACE + MAIN** 

Subtotal Hard	Costs		\$2,653,186	86.01%
Other Eligible Costs				
Machinery & Equipment				0.00%
Furniture & Fixtures				0.00%
Architectural & Engineering			\$160,000	5.19%
Environmental Studies/Soiling Tes	ting		\$2,700	0.09%
Survey			\$1,000	0.03%
Other:				0.00%
Subtotal Eligible Soft	Costs		\$163,700	5.31%
Ineligible Soft Costs				
Other Professional Fees			\$164,650	
Loan Fees			\$38,030	1.23%
Construction Interest	mos.		\$0 <mark>`</mark>	0.00%
Construction Taxes				0.00%
Construction Insurance MEDC Fees				0.00% 0.00%
Title Work				0.00%
Rent-Up Reserve	mos.		\$0 <sup>*</sup>	0.00%
Replacement Reserve	mos.		*0	0.00%
Operating Reserve				0.00%
Other:				0.00%
Other:				0.00%
Other:				0.00%
Other Ineligible Soft Costs - Rel	ated Party Fees			
Developer Fee				0.00%
Project Management Fees	Delete d Destrict			0.00%
Construction Management Fees () Constulting Fees	serated Party)			0.00% 0.00%
Other Related Party Fees			\$30,000	0.00%
Other:			*30,000	0.00%
Subtotal Ineligible Soft	Costs		\$232,680	7.54%
TOTAL DEVELOPMENT COS		_	\$3,084,566	100.00%











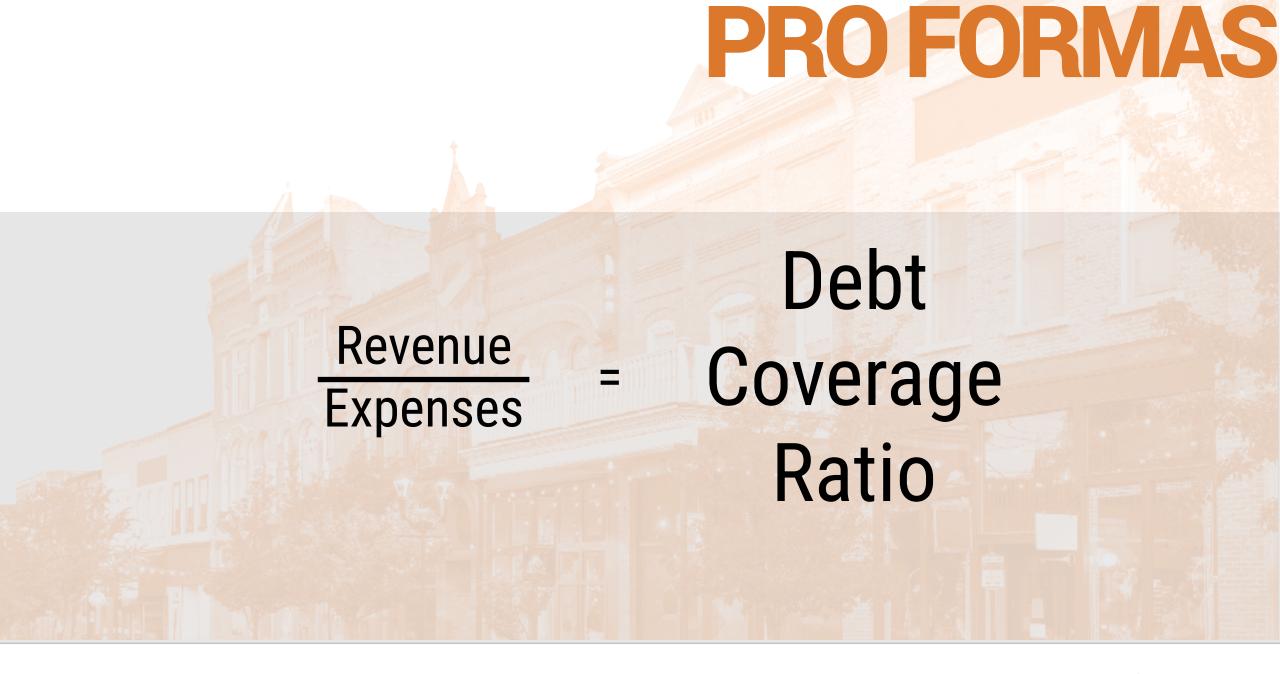
### OPERATING PROFORMA

Net Operating Income - Debt Service =

Net Cash Flow

What Makes a Bad Project?

- Can't Cover Lender's Debt Coverage Ratio
- Poor Rate of Return
  - Negative
  - Less than 6%

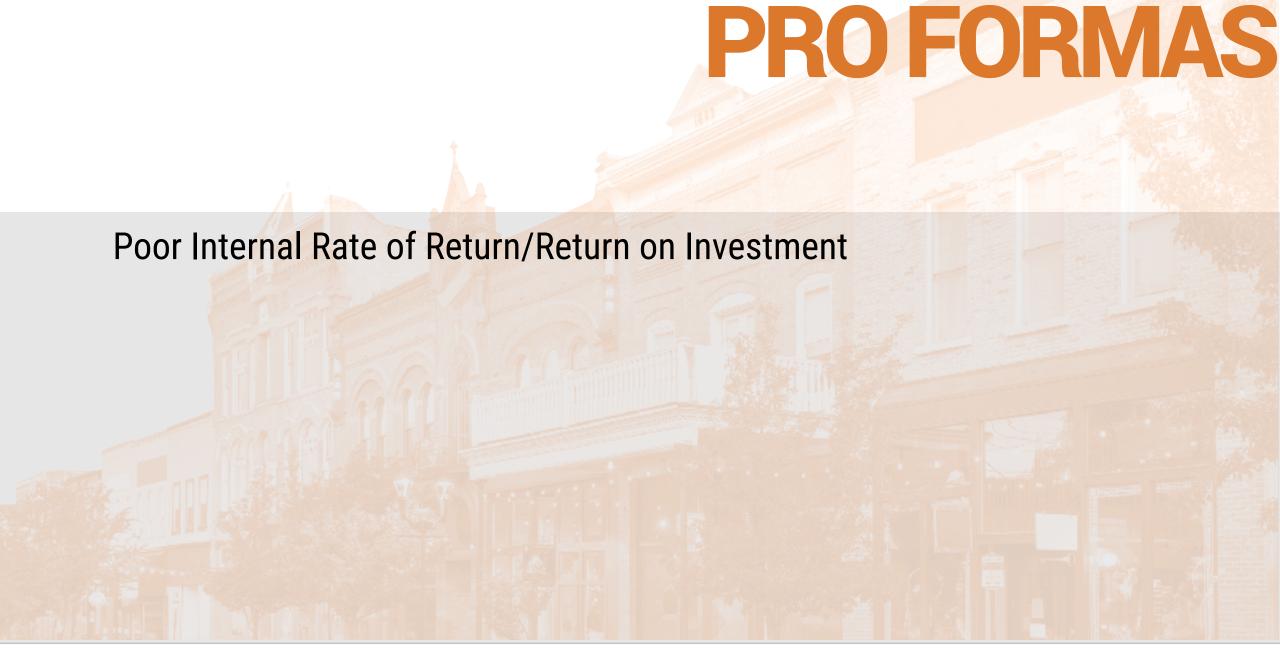


Can't Cover Lender's Debt Coverage Ratio

- Typically 1.15 - 1.20

What Impacts This?

- Operating Costs/Expenses
- Rent Rates



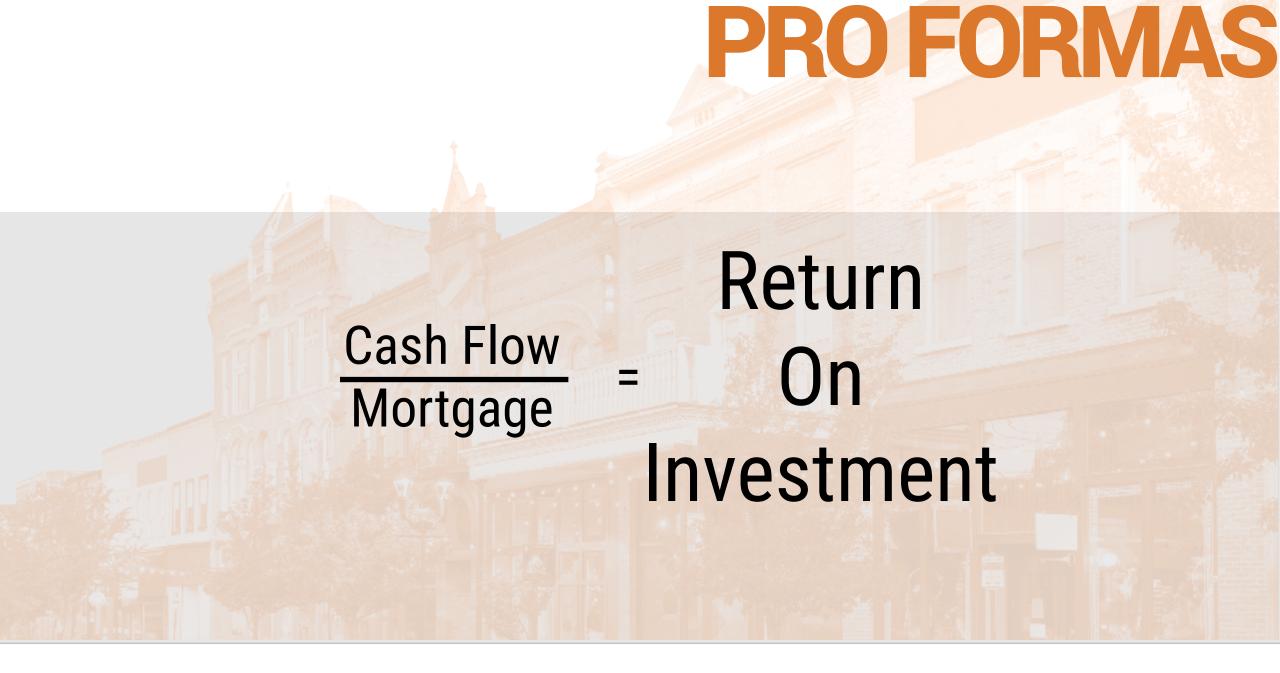


n = number of cash flows

 $CF_i = \text{cash flow at period } i$ .

IRR = Internal Rate of Return

$$O = \sum_{j=1}^{k} CF_{j} \cdot \left[ \frac{1 - (1 + IRR)^{-n_{j}}}{IRR} \right] \cdot \left[ (1 + IRR)^{-\sum_{q < j} nq} \right] + CF_{Q}$$



Poor Internal Rate of Return/Return on Investment

What Impacts This?

- Operating Costs/Expenses
- Rent Rates
- Mortgage



#### **Session 3**

Virginia Development Ready Communities Training

#### Pro forma 101

#### **Glossary of Terms**

**Pro Forma**- a document that shows the financial projections of a project, including revenues and expenses

**Construction Pro Forma**- A pro forma that focuses on solely on the construction side of project-how much it will cost to build and where the money to pay for it will come from

**Operating Pro Forma**- A pro forma that focuses on the monthly or yearly operations of a property once it is built, including rents, other incomes, and expenses like taxes, staffing, and finance charges

**Sources**- Found on a Construction Pro Forma, this refers to where the money to pay for the project is coming from and at what amounts

**Uses**- Found on a Construction Pro Forma, this refers to the what the money will be spent on, such as Hard and Soft Costs

Senior Debt- A loan that has the right to be paid first before any other loans

**Subordinated Debt**- Loans that has second (or less) right to be paid after the senior debit is paid. These loans typically have a higher interest rate because there is more risk

Equity (Cash)- This is money for the project that is typically provided by the developer or other investor

**Equity (Tax Credits)**- This is money for the project that is the result of either direct cash subsidy to a project or cash to the project as the result of the syndication of tax credits

**Syndicated/Syndication**- The "selling" of tax credits, large financial institutions or entities with large amount of taxes often "buy" tax credit from developers at a discount to lessen their tax burden

**Deferred Fees**-These are costs generated by the project that will be recouped either at sale or project refinancing

*Hard Costs*- Costs associated with the physical construction of the project, such as concrete, sheet rock, windows, etc.

**Soft Costs**- Costs associated with the planning of a project, such as architectural fees, | permits, environmental review, etc.

**Net Operating Income**- Revenue less expenses

**Net Cash Flow**- Net Operating income less debt expenses (mortgage)

**Developer Fee**- A fee a developer makes for creating and building the project, this is not the profit from the sale of a project, but a direct project fee. Typically 5-15%.

**Debt Coverage Ratio**- Income divded by costs. Determines if there is enough income to pay mortgage.

**Return On Investment**- Cash Flow divided by mortgage amount. Key term that determines if a project is feasible or not.





## OUESTIONS

+ Thank you!