

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 divided 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.