The Real Estate Development Pro-forma

I. What is a pro-forma?

Definition: A pro-forma analysis is a set of calculations that projects the financial return that a proposed real estate development is likely to create. It begins by describing the proposed project in quantifiable terms. It then estimates revenues that are:
1) likely to be obtained,
2) the costs that will have to be incurred, and
3) and the net financial return that the developer expects to achieve.

II. Steps to a pro-forma:

***Depending on the project, pro-formas can be very simplistic or very complicated, but they usually contain these four steps:
1. Proposed project – What type of project/scope? Ownership (=sales revenue) or Rental (=cash flow) or Mixed?
2. Costs to be incurred – What type of costs? Site acquisition, Hard Costs, Soft Costs.
3. Estimate revenues – What type of revenue is the product going to create? Sales revenue or cash flow.
4. Net financial return – How much does the developer take home? Profit.

III. Examples of Proformas

Worksheet A & B provide the following examples:
A. Ownership model.
B. Rental Model.

IV. Gap Financing Overview

For most projects, the combination of bank financing and tax credits still results in a budget "gap". Closing the funding gap has become more difficult in recent years. Tab C provides seven examples of gap financing subsidy vehicles:
1. Development Cost Subsidies
2. Tax Credit Subsidies
3. Financing Subsidies
4. Operating Subsidies
5. Rental Assistance Subsidies
6. Entitlement Subsidies
7. Project - Generated Cross Subsidies

Type of Project: Mixed-Income Ownership Project **Units** 44

Capital Cost Line Item	Total Cost	Cost/Unit
Site Acquisition	$ 800,000.00	$ 18,182
SOFT COSTS		
Building Permit	$ 66,000.00	$ 1,500
Utility Connection/Tie-In Fee	$ 110,000.00	$ 2,500
Architectural	$ 66,000.00	$ 1,500
Engineering	$ 110,000.00	$ 2,500
Legal	$ 88,000.00	$ 2,000
Recording	$ 65,960.00	$ 1,499
Insurance	$ 66,000.00	$ 1,500
Security	$ -	$ -
Construction Management	$ -	$ -
Property Taxes	$ 20,000.00	$ 455
Construction Loan Interest	$ 286,000.00	$ 6,500
Application/Peer Review/Financing Fees	$ 7,500.00	$ 170
Appraisals	$ 44,000.00	$ 1,000
Utilities (Unsold Units)	$ 35,000.00	$ 795
Accounting/Cost Certification/Monitoring Agent	$ 128,000.00	$ 2,909
Developer Overhead	$ 128,000.00	$ 2,909
Soft Cost Contingency	$ 57,923.00	$ 1,316
Affordable Lottery	$ 50,000.00	$ 1,136
Marketing & Commissions	$ 667,000.00	$ 15,159
TOTAL SOFT COSTS:	**$ 1,995,383**	**$ 45,350**
HARD COSTS		
Site Preparation	$ 990,000	$ 22,500
Common Landscaping/Screening/Fencing	$ 132,000	$ 3,000
Residential Construction	$ 7,040,000	$ 160,000
Builder's General Overhead	$ 163,240	$ 3,710
General Requirements	$ 489,720	$ 11,130
Builder's Profit	$ 489,720	$ 11,130
Hard Cost Contingency	$ 465,234	$ 10,574
TOTAL HARD COSTS	**$ 9,769,914**	**$ 222,044**
TOTAL DEVELOPMENT COSTS	**$ 12,565,297**	**$ 285,575**

SALES REVENUE		
Affordable Units (11 Units @ 175,000)	$ 1,925,000.00	
Market Units (33 units @ 380,000 Average Sales Price)	$ 12,540,000.00	
TOTAL SALES REVENUE	**$ 14,465,000**	
TOTAL DEVELOPMENT COSTS	**$ 12,565,297**	
TOTAL DEVELOPER'S FEE	**$ 1,899,703**	
DEVELOPERS FEE AS A PERCENTAGE OF TOTAL DEVELOPENT COSTS	**15.12%**	

Type of Project:	Mixed-Income Rental				Housing Cost - Assuming 30%	
	Area Medium Income (AMI)	$	56,840.00	$		1,421.00
	60% of AMI	$	34,104.00	$		852.60

Potential Gross Income (PGI)	$	1,221,000	Total rent a property could generate is 100% leased at market rent
Less: Vacancy @ 5%	$	(61,050)	
Equals: Effective Gross Income (EGI)	$	1,159,950	Anticipated income from all operations of the real property after an allowance is made for a vacancy and collection losses.
Less: Total Operating Expenses and Replacement Reserve	$	(319,000)	A net figure that considers expense reimbursements, vacancy and collection loss, and other income.
Equals: Net Operating Income (NOI) (Year 1)	$	840,950	Annual income generated by an income-producing property after taking into account all income collected from operations, and deducting all expenses incurred from operations.
Less: Debt Service Payment (Interest and Principal)	$	(672,760)	Amount of money required to make payments on the principal and interest on outstanding loans
Equals: Cash Flow (Before Income Tax)	$	168,190	Before tax cash flow analysis is a key tool the property investor uses to ensure a healthy bottom line by gauging the return on equity before making an investment. Calculating the cash flow before taxes is a matter of determining the net operating income and deducting the debt service
Total Development Cost (TDC)	$	13,200,000	Represents all costs necessary to produce a completed, ocupied project.
Less: Mortgage Loan	$	(10,747,363)	Total loan amount
Equals: Equity Required	$	2,452,637	Developer's equity requirement sought by most construction lenders financing development projects. Comes from Developer or equity / mezzanine investor. Banks generally require 20%-30%
Return on Equity Year One of Stabilized Operations (Cash Flow/Equity)	$	(8,294,726)	Ratio calculates the amount of return generated in a particular year on the total amount of equity invested (or trapped) in a property.

Estimated Likely Mortgage Loan Amount

Underwriting Based Upon NOI, Debt Service Coverage Factor, and Annual Constant

Net Operating Income (NOI)	$	840,950	
Lender's Debt Service Coverage Factor (DSCF)		1.25%	Ratio of subject property's net operating income to the proposed mortgage debt service
Funds Available for Debt Service (FADS) - NOI/DSCF	$	672,760	
Annual Constant			
Interest Rate		4.75%	The proportion of a loan that is charged as interest to the borrower, typically expressed as an annual percentage of the loan outstanding.
Amortization Term (Years)		30	the time period it will take to repay a mortgage in full.
Annual Constant/Mortgage Capitalization Rate		6.2598%	Mortgage constant, also called "mortgage capitalization rate" is the capitalization rate for debt. It is usually computed monthly by dividing the monthly payment by themortgage principal.
Maximum Supportable Debt Service Mortgage - FADS/AC	$	10,747,308	
Property Value Based Upon Capitalization Rate of 5.75%	$	14,625,217	
Loan/Value Ratio		73.49%	The ratio of the first mortgage line as a percentage of the total appraised value of real property.
Loan/Cost Ratio		81.42%	Used to compare the financing of a project as offered by a loan to the cost of building the project.
Return on Total Cost (ROTC) - NOI/TDC		6.37%	Ratio of the total costs to the sales of the enterprise. It is an additional indicator of the ROS.