CRE Proforma Notes

Note: You must allow circular references in your spreadsheet.

Development Budget Tab

B6	This is the construction loan amount divided by the project cost (excluding equity return)
B28	This is the sum of the budgeted hard costs
B29	This is the budgeted hard cost times the contingency allowance
B30	This is the sum of the Budgeted Hard Costs plus the Contingency
B37	This is the Developer Fee %times the items the fee is assessed on. In this example the fee is based on the total hard costs plus the Architect & Engineering, Legal, and Fees and Permits (it is not applied to the land cost). In other cases it may also be assessed on the site acquisition costs
B38	The construction interest is from the ConstrFinance tab cell C35
B39	Sum of the Soft Costs
B41	Sum of Site, Hard and Soft Costs
B43	The project cost minus the construction loan amount
B44	This is the Equity Stake times the Equity Partner Return
B45	This is the sum of the Project Cost and the Equity Return
B47	This is the project cost less the land cost and construction interest cost. This is the amount of money that you should show being disbursed on the Constr Timing tab
C13	This is the site acquisition and closing cost as a percent of the project cost.
D13	This is the site acquisition and closing cost divided by the gross square feet.

Construction Timing Tab

This section is pretty much self explanatory. One multiplies the percents in the top table by the dollar figures from the Development Budget figures to get the dollars expended each month by category. Add these dollar amounts across to get the monthly case disbursements. The total disbursed should agree with your cost figure on the Development Budget tab.

Construction Finance Tab

Part a) is for a purchased property. One simple enters the appropriate data if this is a purchased project.

Part b)

	Rows 10-14 simple restate data from the Development Budget Tab
B16	Add the land cost the month zero costs from the construction time tab
B17-B28	Figures taken from the ConstrTiming tab

C16	Same as B16
C17-C28	Previous total plus this month's disbursement
D16	Use a MIN function here that chooses the minimum of the Total Dollars Disbursed or the Equity Dollars that are available to disburse. The equity dollars that are available are the Equity Investment shown in C10 minus any money that is reserved to pay any interest to the bank (Cell H29). (This is one of the causes of circularity in the spreadsheet). Copy this formula down to cells below.
E16	What is not covered with equity is covered by the construction loan. Copy formula to cells below.
F16	This period it's simply the bank total.
F17-28	These periods it the bank total this period minus the bank total last period.
G16	The cost of the points
G17-G28	The interest due which is based on the bank balance the previous period
I16	The bank draw plus interest minus any payments made to the bank
I18-I28	Last periods bank balance, plus this month's draw, plus this month's interest – minus this month's payment (if any).
H29	The sum of any payments made to the bank
C31, C32	Taken from appropriate cells above
C33	Sum of above 2 cells
C34	Taken from above
C35	Difference of above 2 cells

Lease Detail Tab

This base case proforma shows 4 suites each with a different type of lease, so that the various types of leases can be illustrated. If you are using this for your development project, you need to use the appropriate number of suites and lease type for you project. For example, if you are doing multifamily, you will be doing gross leases, and if you have say 3 types of apartments, you can model as three leases. If you are doing office and all your leases are NNN with no expense stops, then only model this type of lease. You need not have a separate lease section for each suite. If your building has 5 types of spaces, then you will want to add another lease when building your proforma, whereas if you have only 3 types of spaces that will share a common lease type, then just model 3 leases. This example shows how you can model changes in rents and costs. What you need to do is apply this (i.e. modify as needed) to most realistically reflect your project.

Top Section

The top section accumulates the lease detail from the sections below so most of the cells are sums of the corresponding numbers for the 4 leases. A few ells present ratios based on the summed numbers. These ratios are computed the same as for the individual suites. Start by completing the individual lease detail and then complete the combined cash flow table. The main results from this section will feed the Proforma tab.

B15	This is the sum of leasable square feet from the individual leases.
B16	This is the sum of contract rent plus overage plus miscellaneous income divided by the leasable square feet.
B18	This is Vacancy/Collection Losses divided by the Gross Potential Income
B47	This is the ratio of Total Expense to Effective Gross Income
B58	This is the Rate times the Leasable Square Feet
C58	This is the previous cell increased by the Rental Growth Rate
B62	This is the Real Estate Tax Rate (near the top of the sheet) times the Leasable Square Feet. Similar calculations are in order for cells below.
C62	Increase B62 at the Cost Growth Rate
B66	Sum of the Tenant Reimbursements
B67	Use the MIN function to compute the minimum of the expense stop times the Leasable Square Feet, or the Tenant expenses in the cell above.
B68	The Tenant Expense minus the expense stop.
B69	GPI is the sum of the contract rent, plus overage, plus miscellaneous income plus reimbursable expense

B70	Vacancy and Collection Losses is the appropriate fraction (noted above) of GPI
B71	EGI is GPI less Vacancy and Collection Losses
B73	Same logic as for cell B62
B81	Sum of Expense
B83	EGI minus Expenses
C129	Previous year estimate sales increased by the sales growth rate
B134	Use an IF statement to check if sales are greater than the Base, and if so, compute the appropriate Overage

Proforma Tab

The light green shaded cells are for user input. The other areas are based on calculations from these cells.

Top Section

- Cell D1 has an IF statement based on cell C3 on ConstrFinance to display either the words "Purchased Real Estate" or "Development Project"
- Cells B7-B10 use IF statements. If cell C3 on the ConstrFinance tab is 1, then the purchase data is linked here. For a Development Project, we will assume that the 15-yr depreciable Land Improvements will be one half of the cost of the Sewer/Water, one half of the costs of the Paving/Curbs/Sidewalks and all of the landscaping costs. The Land Value, thus will be, the Site Acquisition and Closing costs, plus the land improvements which are not depreciated (that is, the cost of the Excavation and Grading, one half of the cost of the Sewer/Water and one half of the costs of the Paving/Curbs/Sidewalks). The purchase price is computed as the cost of the project (DevelopmentBudget tab) of the Project Cost with Equity Return. The acquisition costs are already in the development costs so show no value here.
- The Initial long term building basis is the purchase price, plus acquisition costs, minus the land value, minus the land improvement basis, minus the 7yr basis. The 7yr basis is the purchase price plus any acquisition costs minus land costs minus the land improvements value multiplied by the 7-yr building improvement percentage.

Before and After Tax Cash Flow by Year.

- The Operations Cash Flow values are taken from computations noted below and presented as a summary here. First compute values below, and then link them to this summary area.
- The Year 0 Capital Cash Flow can be computed as: Purchase Price + Acquisition Cost + Points (Dollar Amount) – Mortgage Amount. The dollar amount of the points is the

Mortgage Amount times the Points. Link this cell to the After Tax portion as it is the same.

- The Year 10 Capital Cash Flow (i.e. equity cash flow) is computed near the bottom of the spreadsheet and then linked to the appropriate cell
- After you have done the linking you can compute the Total CF which is the sum of the Operations and Capital Figures.
- For the IRR calculations, use the IRR function on the Total CF.
- For the NPV, use the NPV function. Note: The NPV function in Excel assumes the first cash is one period from now, so use the NPV for CF Year 1-10, and then subtract off the initial CF. The rate for discounting is from the input cell labeled "Equity Hurdle Rate".
- Ratio analysis presents the common ratios used to evaluate CRE. The unlevered return is the also called the cap rate (NOI/(Purchase Price + Acquisition Costs)), though one usually talks about a cap rate for the year the building is purchased. Cash on Cash return is the Cash returned that year divided by the initial cash investment. Debt Coverage Ratio is the NOI divided by the Mortgage Payment. Breakeven Occupancy is the Operating Expenses Plus the Mortgage Payment divided by the Gross Potential Income.

Cash Flow From Operations.

- The figures for computing the NOI are taken from the LeaseDetail tab.
- Taxes are computed in the next section
- Before Tax Cash Flow is the NOI minus the Mortgage Payment. (If you have no mortgage (ie. LTV=0), then this will equal the NOI.) Link this cell to the Operations line in the Before Tax Cash Flow by Year area
- Taxes are the taxes due from this investment. Link this to the cell below where it is computed.
- After Tax Cash Flow is the Before Tax Cash Flow minus the Taxes. Link this cell to the Operations Line in the After Tax Cash Flow by Year area

Income Taxes From Operations

- End of Year Loan Balance is calculated to aid in the computation of the amount paid to interest. It is the present value of the remaining payments. Use the PV function as done above to get the mortgage balance, with nper as the number of periods remaining on the loan. So nper = 12*([cell near top with Term] - [cell above with current year])
- NOI is linked from where it is calculated above
- Capital reserves are taken from the LeaseDetail tab
- Interest is the interest paid that year. One way to compute is 12 times the monthly payment minus (last year's loan balance – this year's loan balance). In words, interest is the total payments minus the principal reduction
- Amortized finance cost is the dollar amount paid in points divided by the term of the loan. Any finance cost not written off during the term of the loan can be written off when the loan is repaid, so the figure for the final year is the dollar amount of the points minus the sum of the charges taken to date. For a ten year term, it's the same as any other year
- Depreciation is computed relative to the basis for each component and the above so link to the appropriate cells. For the first and last year you should use the "mid month rule" and only take 11.5/12 of the annual depreciation.
- Taxes due is the Marginal Tax Bracket times the Taxable Income. Link to this cell at the appropriate place above in Cash Flow From Operations

Cash Flow From Resale

- Estimated Sales Price is the NOI in year 11 divided by the Going Out Cap Rate
- Sales Expense is the Estimate Sales Price times the Selling Expense
- Net Sales Price is the Estimated Sales Price minus the Selling Expense. Link this value to the appropriate cell to the right.
- Mortgage Payoff is the balance shown above for year 10
- Before Tax Equity Reversion is the Net Sales Price minus the Mortgage Payoff. This is the Before Tax CF from Capital for Year 10, so link this cell to the appropriate cell above
- Taxes on Sale is computed elsewhere (described below). Link from the appropriate cell.
- After Tax Equity Reversion is the Before Tax Equity Reversion minus the Taxes on Sale. Link this cell to the appropriate cell above for After tax Capital CF above.

Gain on Sale

- Net Sales price was computed above. Link this cell to that figure.
- Adjusted Basis is the Purchase Price plus Acquisition Costs plus sum of the capital improvements minus the sum of the depreciation from Year 1 to 10 (called the accumulated depreciation) for each of the three lines of depreciation.
- Gain on Sale is the Net Sales Price minus the Adjusted Basis
- Depreciation Recapture is minimum of the accumulated depreciation or the Gain on Sale
- Capital Gain is the Gain on Sale minus the Depreciation Recapture
- Depreciation Recap Tax is the Depreciation Recapture times the Depreciation Recapture Tax Rate
- Cap Gain Tax is the Capital Gain times the Capital Gain Rate
- Total Tax on Sale is the Depreciation Recovery Tax plus Cap Gain Tax. Link this figure to the appropriate cell to the left.