

Evaluating the Financial Viability of ULI Hines Student Competition Proposals

Contents

- 2025 Pro Forma Template..... 3
- Overview 3
- Development Program Tab 5
 - Schedule 5
 - Infrastructure..... 6
- Types of Development Tab..... 6
 - Return on Cost..... 7
- Financial Tab 8
 - Development Plan 8
 - Parking 8
 - Fit to Parcel or Layout Calculator 9
 - Net Operating Income (NOI) and Total Project Value 9
 - Project Costs 9
 - Land Cost 10
 - Gap..... 10
 - Capital Stack / Financing 11
 - Sales Analysis 11
- Yield Indicators 12
- Draw Tab..... 12
 - Feasible Project Costs and Calculation of the Gap 14
 - Public Subsidy 15
- Conclusion 16

2025 Pro Forma Template

In past years, ULI provided competitors with a pro forma template that was mostly blank, with no formulas or linked cells. This year the template has formulas, linked cells, and many cells pre-filled with example data. This template, which incorporates feedback and volunteer contributions from ULI members who are real estate developers and investors who have served on the jury, reflects their experience reviewing financial proposals for the competition.

Our goals for the new template included:

- 1) making it easier for the jury to review financial proposals and compare them with one another; and
- 2) making the experience of pulling together a development pro forma more of a learning experience than a fishing expedition for students who are newer to the pro forma.

We look forward to receiving your feedback on this template; we anticipate that it has room for improvement. Please share your input by emailing HinesCompetition@uli.org and by responding to the survey we will send at the end of the first round of the competition.

Overview

The ULI Hines Student Competition is about harnessing your creative capacity to revitalize an urban area to respond to the market, community needs, and values. An important part of your proposal is its financial viability, which enhances the possibility that your creative ideas could be implemented if this were a real-life scenario.

Jury members look to this financial viability as part of their evaluation process, so it is important that local market conditions support your financial analysis and that your financial analysis justifies any public subsidies you are recommending. Your financial analysis also needs to be open and transparent, linking the value created from the proposed land use with numerous Development Components showing the investment return, public subsidy needs, and development schedule for each component.

To aid you in communicating all these dimensions, ULI has shared with you a template financial pro forma that you will modify to show the financial dimensions of your design. Here is what the pro forma will help you understand and communicate.

- How the Development Program components link to the underlying market and layout assumptions based on local market conditions.
- The overall Development Program for all Development Components, showing:
 - Value created;
 - Land uses by residential units (both affordable and market rate) and square feet of commercial (including retail, lodging, and industrial) for each component;
 - Infrastructure needs and allocation of infrastructure costs to Development Components;

- Public financial participation needed to cover the “gap” (defined below); and
- Internal Rate of Return (IRR), both leveraged and unleveraged.
- Dimensions of financial viability:
 - **Feasible Project Costs:** The costs that can be feasibly financed using solely private capital, based on the market value of a Development Component on completion;
 - **The “gap”:** The amount of funding or cost reduction necessary to achieve financial viability if actual project costs exceed Feasible Project Costs; and
 - **Development and draw schedule:** A schedule for the four phases of the development process. For each Development Component, you will plan out a schedule for the four phases: predevelopment, demolition (if needed), construction, and close-out. This schedule will determine the draw schedule for spending the project budget by line item and thus will determine the leveraged and unleveraged IRR for each component. By creating a schedule for each component, you will also be laying out the phasing for your whole Development Program. Carefully consider the sequencing of your Development Components because the order in which you develop them could be catalytic in value creation.

For the 2025 competition:

Predevelopment (land acquisition, planning, entitlements, stakeholder engagement, etc.) can begin as early as **January 1, 2026**, for any component. **The start year**—the first year you may begin **construction** on any phase—is **2027**. **Close-out** for all phases must be completed by the end of **2036**.

The specific tabs of the template pro forma are:

- **Market Research**—presenting the results of the research that you then use to fill the Assumptions tab. The Market Research tab is just one example of the type of research you might conduct; you do not have to conduct this exact research or consult these exact sources. The Market Research tab is an example from the pro forma of the team that won the competition in 2022.
- **Assumptions**—linking to the Financial tab for each Development Component so that rents, sale prices, costs, and layout for each component reflect the market conditions you researched.
- **Development Program**—showing all Development Components, with each component linking to a Financial tab and a Draw tab. You will need to modify the Development Program tab to show the Development Components in your design proposal.
- **Types of Development**—showing different building types that could be sources of income for your development, including cost, construction period, and hurdle rate for Return on Cost (ROC).

10/8/2024

- **Financial**—for each Development Component, showing land uses, units, unit sizes, value created, parking, project costs, and gap funding requirements. You will use the Financial tab to calculate the layout, value, cost, and capital stack for each component.
- **Draw**—for each Development Component, showing the quarterly project draw for each project cost line item and calculating the IRR for that Development Component based on the equity and overall draw followed by the sale of the project at close-out. Dates in the Draw tab come from the dates you input in the Schedule section of the Development Program tab (explained below).
- **All Components Draw**—showing the overall IRR for all Development Components.

In the pro forma, the text in **light blue** indicates cells you can and should update with your own data based on your research. You may want to update other cells as well. You can add more assumptions and line items, change formulas, and format the tabs (font, colors, alignment, spacing, borders, page layout, orientation, size, print area) as long as the basic structure stays generally the same so the jury can compare one pro forma to the next relatively easily.

Development Program Tab

The Development Program tab shows all Development Components with a summary of their value, costs, private equity, private debt, gap funding, and Leveraged IRR.

Development Program												
Development Component	Location of Development Component	Area in SF	Land Use	Residential Units	Commercial SF	Building Height	Value	Total Project Costs	Equity	Debt	GAP	Leveraged IRR
Component A&B	Parcels A&B	44,000	RES-Market-MU-Rental	280 Units	Commercial 13,000 SF	6 stories	\$248,379,733	\$199,616,284	\$79,846,513	\$119,769,770	(\$8,555,000)	14%
		22,000										
Component C	Parcel C	12,000	RES-Market-Rental	85 Units	No Retail No Office	10 stories	\$134,895,000	\$80,999,755	\$32,400,000	\$48,600,000	\$0	28%
Component D	Parcel D	50,000	RES-Market-Sale	95 Units	No Commercial	3 stories	\$73,200,000	\$57,136,260	\$22,855,000	\$34,282,000	\$0	17%
Component E	Parcel E	60,000	RES-AFF-MU	260 Units	Retail 6,500 SF	6 stories	\$104,981,400	\$121,778,192	\$32,302,000	\$48,453,000	(\$41,023,000)	12%
					Office 6,500 SF							
Component F	Parcel F	20,000	Office	None	Office 150,000 SF	10 stories	\$158,800,000	\$111,807,450	\$44,723,000	\$67,084,000	0	17%
Component G	Parcel G	22,000	Suburban retail/office	None	Commercial 12,000 SF	2 stories	\$12,608,000	\$9,983,144	\$3,993,000	\$5,990,000	\$0	17%
Component H	Parcel H	25,000	HOTEL	200 Hotel rooms	Retail 10,000 SF	10 stories	\$112,680,000	\$74,255,080	\$29,702,000	\$44,553,000	\$0	24%
Component I	Parcel G	160,000	Industrial	None	Industrial 145,000 SF	2 stories	\$83,520,000	\$69,488,440	\$27,795,000	\$41,693,000	\$0	17%
TOTALS		415,000		920 Units	343,000 SF		\$929,064,133	\$725,064,604	\$273,616,513	\$410,424,770	(\$49,578,000)	17.87%

Note that a Development Component can include parcels in more than one location in the study area. The financial viability of that Development Component can be based on the combined locations. This may be a useful strategy if one or more of the components has extra costs that can be funded by the overall financial viability of the combined locations. For instance, in the table from the template (above), Component A&B denotes Residential Market Rate/Mixed Use Rental, which includes two parcels.

Schedule

The Development Program tab lays out the **schedule** for development of each component. The Draw tab for each development component links back to the dates in this schedule, and thereby aids in the calculation of the draw and the IRR for the Development Component.

Because your design has multiple components, the predevelopment process can start on all components when you begin work on the first component. Each component will have a different schedule for subsequent phases of development. One effective strategy is for the predevelopment process to address the entire Development Program beginning in January 2026. For later projects, the earlier expenses can be relatively modest, but an effort to achieve the adoption of a master plan for the entire area can enable the eventual development of all components. Detailed issues such as architectural approval could be postponed to later in the predevelopment process.

Schedule				
Development Component	Pre-Development	Demolition	Construction	Close-out
Component A & B	01/1/26 to 12/31/26	None	1/1/27 to 12/31/29	1/1/30 to 6/30/30
Component C	01/1/26 to 12/31/26	1/1/27 to 6/30/27	7/1/27 to 6/30/30	7/1/30 to 12/31/30
Component D	01/1/26 to 12/31/26	None	1/1/27 to 12/31/28	1/1/29 to 6/30/29
Component E	01/1/26 to 12/31/28	None	1/1/29 to 12/31/32	1/1/33 to 10/31/33
Component F	01/1/26 to 12/31/28	None	1/1/29 to 12/31/32	1/1/33 to 10/31/33
Component G	01/1/26 to 12/31/28	None	1/1/29 to 12/31/30	1/1/31 to 09/30/31
Component H	01/1/26 to 12/31/30	None	1/1/31 to 12/31/33	1/1/34 to 09/30/34
Component I	01/1/26 to 12/31/28	None	1/1/29 to 12/31/32	1/1/33 to 12/30/33

Infrastructure

The Development Program tab also shows the **infrastructure** needs for the entire Study Area, with their costs and the allocation of the costs to each of the components of the Development Program. Your team will need to conduct research on this issue (see example below).

Infrastructure Allocation									
Item	Total Cost	To Component A&B	To Component C	To Component D	To Component E	To Component F	To Component G	To Component H	To Component I
Neighborhood Park	\$5,000,000	\$3,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$0	\$0	\$0
Flood Control	\$4,000,000	\$2,000,000	\$1,000,000	\$0	\$0	\$1,000,000	\$0	\$0	\$0
TOTAL	\$9,000,000	\$5,000,000	\$2,000,000	\$0	\$0	\$2,000,000	\$0	\$0	\$0

Types of Development Tab

The model has a table showing different building types that could be sources of income. The building type determines cost, construction period, and hurdle rate for Return on Cost (ROC).

This table lists several archetypes that may be deployed in your design proposal, but don't treat this as the entire list of choices. You can add more building types to your proposal.

Development types					
Configuration	Building type	Commercial included?	Label	Return on Cost requirement	Typical Construction period
Rental: Residential Market Rate/Mixed use	Type III 6 stories	Includes Retail and/or office components	RES-Market-MU-Rental	30%	3 years
Rental: Retail/office stand alone	Type V--1 to 2 stories	May include Retail and/or office components	Suburban retail/office	20%	2 years
Rental: Office stand alone	Type 5-up to 4 stories Type III up to 6 stories Type I--up to 30 stories	May include Retail	Office	30%	3 years
Rental: Residential Market Rate	Type 5-up to 4 stories Type III up to 6 stories Type I--up to 30 stories	May include Retail and/or office components	RES-Market-Rental	20% to 30% depending on building type	2 years to 3 years
For Sale: Residential Market Rate	Type V--low density Type I-high density	May include Retail and/or office components	RES-Market-Sale	20% for low density 30% for high density	2 years for low density 3 years for high density
Rental: Residential Affordable Mixed use	Type III--6 stories	May include Retail and/or office components	RES-AFF-MU	30%	3 years
For Sale: Residential Affordable	Type V--low density Type I-high density	May include Retail and/or office components	RES-AFF	30%	3 years
Hotel: Lodging and amenity income	Type I-high density	May include Retail	HOTEL	30%	3 years
Industrial Park: Warehouse and manufacturing	Type V or III	May include office components	Industrial	20% or 30% depending on building height	2 years to 3 years

Return on Cost

The pro forma model uses the metric of Return on Cost to assess the financial viability of a Development Component. Private investors typically use ROC as a hurdle rate to conduct a preliminary evaluation of whether a project has sufficient value to attract private capital.

ROC depends on the projected development period for the component, which depends, in large measure, on the complexity of the building type. Complicated building types (Type III and Type I) require three years or more for development and typically require a hurdle of 30% ROC. Simpler projects (Type V) that can be completed in two years can be viable with a 20% ROC.

These are assumptions reflecting generic market conditions and do not reflect markets that have extraordinarily high or low leverage or loan costs, or higher return on equity. However, this approximation of financial viability is sufficiently valid to be used early in the development process to evaluate the potential for private investment. By using this approach, the design teams can perform a realistic preliminary evaluation of financial viability without having to dive into the more complicated multiyear detailed cash flow analysis that typically will occur before capital funding.

Financial Tab

Development Plan

The Financial tab starts with the development plan for the component, which is composed of the number of units of residential and/or the square feet of commercial space. The rents or sales prices associated with the Development Component are linked to the Assumptions tab. Here is an example of the development plan shown on the Financial tab for Development Component A&B.

DEVELOPMENT PLAN			Component A&B	
			0.0%	Quick Rent Adjuster
For Rent Residential	# of Units	Net Rentable Square Feet (NRSF)	\$/SF/Mo.	Total Annual
Studios	45	550	\$5.00	\$1,485,000
1 bedroom/1 bath	45	700	\$4.80	\$1,814,400
2 bedroom/2 bath	95	1,000	\$4.25	\$4,845,000
3 bedroom/3 bath	95	1,200	\$4.00	\$5,472,000
Totals:	280 Units	265,250 SF		\$13,616,400
Averages:		947 SF	\$4.28	
COMMERCIAL SPACE		Square Feet	NNN Rent	Total Annual
Retail	6,500		\$48.00	\$312,000
Office	6,500		\$48.00	\$312,000
Total Commercial	13,000		\$48.00	\$624,000

Parking

Parking can be a significant factor in the development plan for a component, so you need to specify in the Financial tab the number of parking stalls allocated to each use.

PARKING for Components A&B	
Residential	308
Commercial	30
Total Parking	338

The model allows users to apply the parking ratios required under market conditions and/or regulation and provides the flexibility to configure the parking as surface, structured, or lifts/stackers.

On the Assumptions tab, each option has an estimate of square feet required by each stall and the cost per stall. In addition, the model provides the option of either free parking or “unbundled” parking—parking that is not included in rent, so tenants or owners must pay extra for it. The owner can then make the parking stalls available as public parking, creating additional revenue that contributes to Net Operating Income (NOI).

Inputs for parking on the Assumptions tab will show up in the NOI and/or Project Costs section of the Financial tab for each component with parking.

10/8/2024

Fit to Parcel or Layout Calculator

The Fit to Parcel section, also called the Layout Calculator, determines whether you have enough land area to build the layout you are proposing.

Fit to Parcel (Layout Calculator)	Component A&B
Total Land area	66,000
Total Leasable SF (residential +commercial)	278,250
Parking area at 150 sf per stall	50,700
Building area at 20% circulation	394,740
Building footprint at 6 stories	65,790

Total Land Area pulls data from the Area column on the Development Program tab, and Parking area pulls data from Parking Mix table on the Assumptions tab.

Net Operating Income (NOI) and Total Project Value

The Financial tab calculates the component's NOI and Total Project Value (market value). Total Project Value is based on NOI divided by the market cap rate (for rental components) or NOI divided by Net Sales Proceeds (for sales components). You will need to research the local market to determine what assumptions to use for market cap rate or sales prices.

NET OPERATING INCOME Component A&B			
INCOME	Per Unit	\$/SF Res	Un-Trended
Gross Residential Rental Income	\$48,630	\$51.33	\$13,616,400
13,000 SF Retail Income	Commercial RENT		\$624,000
	Gross Income		\$14,240,400
Other Income	\$/unit	\$/SF	
Parking Income-residential only	\$250	\$3.48	\$924,000
Additional Income	\$3,560	\$3.76	\$996,828
Total Other Income			\$1,920,828
LESS: 5% Vacancy			(\$712,020)
Effective Gross Income	\$55,176	\$58.24	\$15,449,208
EXPENSES	Per Unit	Per SF	Un-Trended
Total Operating Expenses	(\$15,258)	(\$16)	(\$4,272,120)
Net Operating Income	\$39,918		\$11,177,088
TOTAL PROJECT VALUE	Market Cap Rate=	4.50%	\$248,379,733

Note that the pro forma model uses “un-trended” data for all calculations. When a detailed financial analysis is made, typically the rents, costs, and market data will be “trended”—projected based on estimates of inflation and market data. This can be quite complex and requires a lot of guesswork, so the template model avoids this complexity by simply applying current market data to the analysis.

Project Costs

The Financial tab next shows the estimates of project costs by line item (as shown below). Hard Costs for Construction per square foot refers to cells in the Basis section of the Assumptions tab and Parking Stalls refer to the Assumptions tab. Infrastructure Allocation refers to the

10/8/2024

Infrastructure section of the Development Program tab. The remaining line items require individual estimates.

PROJECT COSTS		Component A&B	
	BASIS	Budget	Per Unit
Hard Costs for Construction	\$340 per SF net leasable	\$94,605,000	\$337,875
Parking stalls	\$12,500 per stall	\$4,225,000	\$15,089
Hard Cost Contingency	10% of GMP costs	\$9,460,500	\$33,788
Demolition	Estimate	\$0	
LAND	Land cost	\$40,000,000	\$142,857
Municipal Fees and Allowances	Fee/unit=\$50,000	\$14,000,000	\$50,000
Infrastructure allocation	Parcel allocation	\$5,000,000	\$17,857
Legal	Estimate	\$400,000	\$1,429
Land Closing Costs/commissions	Estimate	\$600,000	\$2,143
Design	4% of total hard costs	\$4,162,620	\$14,867
Developer Fee	3% of Project Budget	\$5,173,594	\$18,477
Construction Management Fee	2% of total hard costs	\$2,081,310	\$7,433
Taxes	Estimate	\$2,000,000	\$7,143
Insurance	\$6,000 per unit	\$1,680,000	\$6,000
Marketing, FFE and Preleasing	Estimate	\$800,000	\$2,857
Operating Deficit	6 Months of OPEX	\$2,136,060	\$7,629
Retail Tenant Improvements	\$75 per SF of retail	\$975,000	\$3,482
Retail brokerage	6% on a five year term	\$187,200	\$669
Construction Loan Origination	1.50% of loan amount	\$1,611,000	\$5,754
Construction Interest	7% of loan amount	\$7,519,000	\$26,854
Additional Contingency	Estimate	\$3,000,000	\$10,714
Total Project Cost		\$199,616,284	\$713,000

For Construction Loan Origination and Construction Interest, the estimates must be entered manually based on the side calculation of those items (highlighted in yellow), which derive from the estimate of the construction loan for the project. This manual input avoids a “circular” reference error that would occur if the items were not entered manually.

Construction Loan Origination	1.50% of loan amount	\$1,611,000	\$5,754	Apply % to estimated Debt to avoid circular reference	\$1,796,546.55
Construction Interest	7% of loan amount	\$7,519,000	\$26,854	Apply % to estimated Debt to avoid circular reference	\$8,383,884

Land Cost

Of particular importance in the Project Costs table is the Land cost estimate, which may be what a public agency is offering the land for or the result of the price a private owner requires. As you move through the financial analysis, you should adjust the land price to reflect what the project can afford. The term that describes the “affordable land cost” is “residual land value” or “development value.” Your evaluation of the land price that the project can afford is critical in reaching an agreement with the landowner on the final price of the land.

Gap

The model shows actual project costs and Feasible Project Costs (explained below) based on the assumed ROC hurdle rate required for the Development Component. The table below shows these two components and uses them to calculate the “gap”—the amount of subsidy required to fund the net costs at a level that is financially feasible to attract private capital.

10/8/2024

In the case of the first table below (from the template), the Feasible Project Costs indicate a gap. In the case of the second table below, the Feasible Project Costs far exceed the actual costs, so there is no gap; in fact, there is a substantial surplus in value above actual costs.

Total Project Cost		\$199,616,284
Yield on cost	5.6%	
Return on cost	24.4%	
Feasible Project Costs at 30% ROC	\$191,061,333	
Gap at 30%	(\$8,555,000)	Negative indicates shortfall

Total Project Cost		\$179,016,284
Yield on cost	6.2%	
Return on cost	56.1%	
Feasible Project Costs at 30% ROC	\$214,944,000	
Gap at 30%	\$35,928,000	Negative indicates shortfall

Capital Stack / Financing

The Financial tab then calculates the capital stack—the private debt and equity—for financing the project, including any gap funding, in the Financing section.

FINANCING Component A&B		
	Total	Per Unit
Gap Funding reduction	(\$8,555,000)	(\$30,554)
Private financing Amount	\$191,061,284	\$682,362
60% Debt	\$119,769,770	\$427,749
40% Equity	\$79,846,513	\$285,166
Total Sources	\$199,616,284	\$713,000

Sales Analysis

These components then enable the calculation of Net Sales Proceeds and Net Profit from selling the project after close-out, in the Sales Analysis section.

SALES ANALYSIS Component A&B		
	Untrended	
Gross Sales Proceeds	248,379,733	
LESS: 2% Selling Costs	(\$4,967,595)	
Net Sales Proceeds	243,412,139	
LESS: Construction Debt	(119,769,770)	
LESS: Investor Equity	(79,846,513)	
Net Profit	\$43,795,900	
Sales Price per Unit		
Gross Price	\$887,100	
Net Price	\$869,300	

The figure for Gross Sales Proceeds results from the estimate of the Total Project Value (market value). Net Profit is calculated from the Net Sales Proceeds of the project upon completion less Construction Debt and Investor Equity.

Yield Indicators

Leveraged and Unleveraged IRR on the Financial tab pulls figures from the Draw tab, which uses Net Profit to calculate the IRR on the Development Component from cash flows.

YIELD INDICATORS		
	Untrended	
Equity multiple	1.5	
Leveraged Project IRR	14%	
UnLeveraged Project IRR	11%	
Debt Yield	9%	
Exit Cap Rate	4.50%	

Draw Tab

Once the financial viability and gap are determined, then the Draw tab calculates the IRR based on the draw of equity (leveraged) and overall (unleveraged) of each of the project cost line items. The first step in making this estimate of draw is to operationalize the Project Schedule assumptions that are linked to the Development Component tab and put column headings on the quarters shown in the schedule. The table below shows the cells that link to the schedule.

Schedule---->	Pre-Development	Demolition	Construction	Close-out
Duration---->				
Component A & B	01/1/26 to 12/31/26	None	1/1/27 to 12/31/29	1/1/30 to 6/30/30

This table shows how you will operationalize the draw to specific quarters of the schedule.

Component A & B	Schedule---->	Pre-Development	Demolition	Construction	Close-out	
	Duration---->	01/1/26 to 12/31/26	None	1/1/27 to 12/31/29	1/1/30 to 6/30/30	
Hard Cost Draw Percentage	100.00%	0.0%	0.0%	0.0%	0.0%	0.0%
Hard Costs for Construction	94,605,000	\$0	\$0	\$0	\$0	\$0
Parking stalls	4,225,000	\$0	\$0	\$0	\$0	\$0
Hard Cost Contingency	9,460,500	\$0	\$0	\$0	\$0	\$0
Demolition	0					
LAND	40,000,000			\$400,000		
Municipal Fees and Allowances	14,000,000					
Infrastructure allocation	5,000,000					
Legal	400,000			\$100,000	\$100,000	\$50,000
Land Closing Costs/commissions	600,000					
Design	4,162,620			\$1,248,786	\$1,248,786	\$416,262
Developer Fee	5,173,594	\$0	\$0	\$0	\$0	\$0
Construction Management Fee	2,081,310	\$0	\$0	\$0	\$0	\$0
Taxes	2,000,000					
Insurance	1,680,000					
Marketing, FFE and Preleasing	800,000					
Operating Deficit	2,136,060					
Retail Tenant Improvements	975,000					
Retail brokerage	187,200					
Construction Loan Origination	1,611,000	\$0	\$0	\$0	\$0	\$0
Construction Interest	7,519,000					
Additional Contingency	3,000,000	\$0	\$0	\$0		\$0
Total Project Cost	199,616,284	\$0	\$0	\$1,748,786	\$1,348,786	\$466,262

10/8/2024

The pro forma allows you to operationalize the schedule as far out as the end of 2036. However, you will only need to show the number of quarters that are consistent with your Development Component’s schedule. An example follows.

Componenet A & B	Schedule---->										
	Duration---->	Construction begins	Construction ends	Close-out begins	Close-out ends	<---- columns to unhide for longer development period					
Hard Cost Draw Percentage	100.00%	5.0%	8.0%	0.0%	0.0%	100.0%					
Hard Costs for Construction	94,605,000	\$4,730,250	\$7,568,400	\$0	\$0	\$94,605,000	\$94,605,000				\$0
Parking stalls	4,225,000	\$211,250	\$338,000	\$0	\$0	\$4,225,000	\$4,225,000				\$0
Hard Cost Contingency	9,460,500	\$473,025	\$756,840	\$0	\$0	\$9,460,500	\$9,460,500				\$0
Demolition	0					\$0	\$0				\$0
LAND	40,000,000	\$39,600,000	\$0	\$0	\$0	\$40,000,000	\$40,000,000				\$0
Municipal Fees and Allowances	14,000,000	\$14,000,000				\$14,000,000	\$14,000,000				\$0
Infrastructure allocation	5,000,000					\$5,000,000	\$5,000,000				\$0
Legal	400,000	\$50,000				\$400,000	\$400,000				\$0
Land Closing Costs/commissions	600,000					\$600,000	\$600,000				\$0
Design	4,162,620	\$208,131				\$4,162,620	\$4,162,620				\$0
Developer Fee	5,173,594	\$431,133	\$431,133			\$5,173,594	\$5,173,594				\$0
Construction Management Fee	2,081,310	\$173,443	\$173,443			\$2,081,310	\$2,081,310				\$0
Taxes	2,000,000		\$383,333			\$2,000,000	\$2,000,000				\$0
Insurance	1,680,000	\$10,000			\$0	\$1,680,000	\$1,680,000				\$0
Marketing, FFE and Preleasing	800,000		\$400,000			\$800,000	\$800,000				\$0
Operating Deficit	2,136,060			\$956,059	\$800,608	\$1,756,667	\$2,136,060				\$379,393
Retail Tenant Improvements	975,000		\$487,500			\$975,000	\$975,000				\$0
Retail brokerage	187,200			\$187,200		\$187,200	\$187,200				\$0
Construction Loan Origination	1,611,000	\$1,611,000				\$1,611,000	\$1,611,000				\$0
Construction Interest	7,519,000		\$1,074,143	\$1,253,167	\$1,870,799	\$7,519,000	\$7,519,000				(\$0)
Additional Contingency	3,000,000	\$250,000	\$250,000			\$3,000,000	\$3,000,000				\$0
Total Project Cost	199,616,284	\$61,748,231	\$11,862,791	\$2,396,426	\$2,671,407	\$199,236,891	\$199,616,284				

Note that Total Expended column shows all the costs drawn (expended) for each line item. The Total Cost column duplicates the line-item amount from the TOTAL column (Column B) for comparison. You will need to input the actual draw schedule for each line item consistent with the schedule, then hide your unused columns.

The Draw tab, based on the draw of line items, calculates the leveraged and unleveraged IRR for the Development Component. The images below show the section with these calculations.

Leveraged	
Net Proceeds from Sale after debt repayment	\$123,642,369
Leveraged Quarterly cash flow	\$43,795,855
Leveraged QUARTERLY IRR	3.44%
Leveraged Annual IRR	14.49%
Unleveraged	
Total Net proceeds from Sale+GAP FUNDING	\$251,967,139
UNLeveraged QUARTERLY TOTAL Cash flow	\$52,730,248
UNLeveraged QUARTERLY IRR	2.70%
UNLeveraged Annual IRR	11.23%

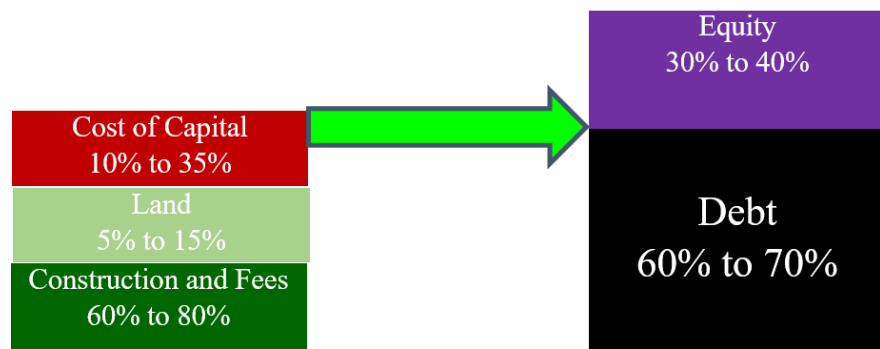
These IRR results then link to the Development Program tab, as shown above.

Finally, all the cash flow for all the Development Components is rolled up into an All Components Draw tab, which uses the combined cash flows, both leveraged and unleveraged, to calculate IRR for both.

ALL Draw-all parcels	
	Quarter---->
Leveraged Quarterly cash flow	\$227,677,556
Leveraged Quarterly IRR	4.23%
Leveraged Annual IRR	18.04%
<hr/>	
UNLeveraged Quarterly TOTAL Cash flow	\$240,840,628
UNLeveraged Quarterly IRR	2.96%
UNLeveraged Annual IRR	12.39%

Feasible Project Costs and Calculation of the Gap

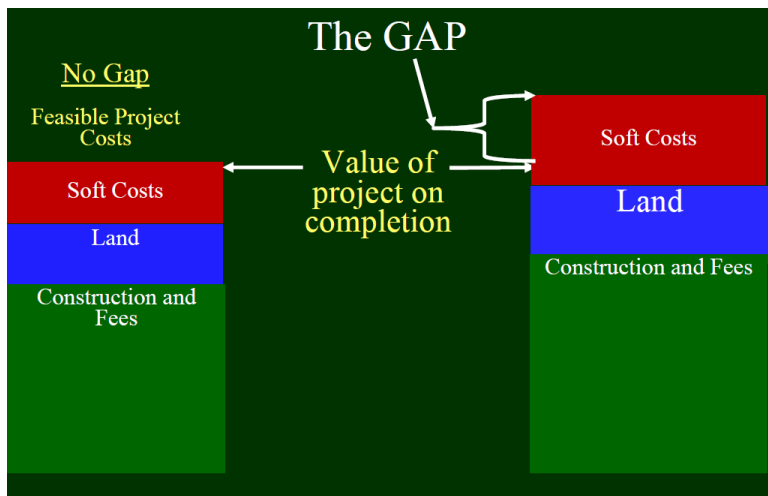
Calculating Feasible Project Costs is important in evaluating the financial viability of your proposed design because real estate development is capital intensive—that is, the cost of capital is a significant component of the cost of a real estate project, as illustrated below:



Example

- Apartment project takes 24 months to complete
- 60% leverage—debt at 5%, equity at 20%
- Cost of capital = 20% of other projects costs

The Feasible Project Costs are those where the market value of the project upon completion is sufficient to cover construction, land, and private capital costs, as illustrated in the figure below:



The pro forma model starts the evaluation of financial viability with an estimate of the Total Project Value (market value) of each completed Development Component. Once you have estimated the Total Project Value on completion, you compare this value to the Total Project Cost and determine whether the value provides a sufficient Return on Cost to cover the private cost of capital. If it doesn't, there is a need for either a reduction in project costs or a subsidy from some other source to pay the cost of the gap.

Several items in the Project Cost table may be amenable to a cost reduction. Three such items are Land (residual land value or development value), Infrastructure allocation, and Municipal Fees. These items may be under the control of the public agency where the project is located and may be adjusted through negotiation to lower costs. You can estimate how much these adjustments need to be by tweaking these costs and seeing the resulting gap. If your adjustments result in a gap, then you have a target in negotiation with the public agency for cost reduction.

Public Subsidy

Gap funding through a public subsidy is another approach to achieving feasibility. Affordable housing projects, for instance, typically use Low Income Housing Tax Credits (LIHTC) or other sources of gap funding. The template model can help you determine the size of the public subsidy, but you will need to do more research on the funding sources that may be available. Knowing their magnitude is a starting point for successfully obtaining the outside funding. This competition requires you to not only identify the magnitude of the gap, but also its funding source(s).

10/8/2024

Conclusion

The financial analysis and pro forma template help you demonstrate the financial viability of your overall design program. The visuals in your submission should show the same components you outline in the pro forma. For example, if your Development Program shows a six-story residential mixed-use building on parcel A, with income from a retail tenant, the images on your presentation sheet should show the same type and size building in that part of the site. The financial analysis should exactly reflect the designs, and vice versa.

Keep in mind that you will be submitting your whole pro forma in Excel. Refer to the challenge brief for specific submission parameters and for information about a pro forma training recording and live sessions during the competition period at which you can ask questions about this pro forma template.