NSP Toolkits

Sample Pro Forma and Guide

Single-Family Rental Development

About this Tool

Description:

This sample pro forma spreadsheet workbook is intended for use by developers of single-family rental housing that is being financed with conventional debt and Federal subsidies, not through equity syndications; the latter require more complex analysis. The workbook includes separate worksheets for the development budget, operating budget and 20-year cash flow projections. The fourth worksheet is a guide to completing the pro forma.

How to Adapt this Document:

This form is provided only as an example. If this is adapted, line items should be added, deleted or amended to conform to the policies and procedures of the user's NSP program.

Source of Document:

This pro forma was adapted from a spreadsheet created by Phil Jones of ICF International. Portions of the guide were adapted from pro formas used by the City of Denver.

Disclaimer:

This document is not an official HUD document and has not been reviewed by HUD counsel. It is provided for informational purposes only. Any binding agreement should be reviewed by attorneys for the parties to the agreement and must conform to state and local laws.

This resource is part of the NSP Toolkits. Additional toolkit resources may be found at www.hud.gov/nspta

U.S. Department of Housing and Urban Development
Neighborhood Stabilization Program

Sample NSP Single-Family Rental Development Budget

Project Name: **Sample Project Name**
Developer: **ABC Development Inc.**
Address: **Sample Project Address**

Green Cells are User Input
White Cells are Automatically Calculated Values

Uses

Acquisition Costs:

Acquisition: Land		$	5,000
Acquisition: Buildings		$	20,000
Total Acquisition:		***$***	***25,000***

Construction:

Contract with GC (incl profit, OH, gen conditions)		$	70,000
Bond Premium		$	-
Construction Contingency	10%	$	7,000
Total Construction:		***$***	***77,000***

Soft Costs:

Building Permit, License & Fees		$	300
Architect or Rehab Specialist - Specs/Estimates		$	600
Engineering		$	-
Environmental: Site-Specific Review		$	300
Acquisiton Closing - Legal and Recording Fees		$	500
Title Search & Title Insurance		$	600
Survey		$	400
Appraisal & Analysis of Rent Comparables		$	600
Builder's Risk and/or Casualty Insurance		$	800
Carrying Costs - Real Estate Taxes		$	700
Carrying Costs - Utilities		$	600
Carrying Costs - Site Security		$	1,000
Carrying Costs - Grounds Maintenance		$	800
Furniture Fixtures & Equipment		$	-
Prefunded Replacement Reserve		$	1,500
Prefunded Operating and/or Rental Loss Reserves		$	1,350
Seller Legal and Recording Costs		$	400
Tenant Relocation		$	-
Rent-Up Marketing Costs		$	200
Other		$	-
Soft Cost Contingency	10%	$	1,065
Developer Fee	15%	$	17,057
Total Soft Costs:		***$***	***28,772***

Total Development Cost:	***$***	***130,772***

Sources

Supportable Debt (see Operating Budget)	**$**	**27,425**
Additional Sources of Funds:		
NSP Soft 2nd Mortgage	$	93,348

Owner/Investor Equity	$	10,000
Other	$	-
Total Development Sources:	***$***	***130,772***
Gap/(Or Excess Sources):	***$***	***-***

Sample Pro Forma Single Family Rentals

Operating

Project Name **Sample Project Name** Green Cells are User Input
Address: **Sample Project Address** White Cells are Automatically Calculated

Tot NSP Units Serving Households below 50% AMI: 1

Income:

Rent:	# Units	Monthly Rent	Annual Rent
Efficiency	0	$ 350	$ -
One Bedroom	0	$ 450	$ -
Two Bedroom	0	$ 550	$ -
Three Bedroom	1	$ 650	$ 7,800
Total Units	1		
Gross Rent			***$ 7,800***
Less:			
Vacancy		5.0%	$ (390)
Bad Debt		2.0%	$ (156)
Gross Effective Income:			***$ 7,254***

Expenses:

Administrative		Annual	Average Per Unit
Advertising & Marketing		$ 50	$ 50
Mgmt Fee (% of collections)	8.0%	$ 580	$ 580
Administrative		$ 20	$ 20
Legal		$ 30	$ 30
Accounting		$ 100	$ 100
Office Supplies		$ 20	$ 20
Credit Checks		$ 20	$ 20
Leasing Fees		$ 100	$ 100
Other		$ 30	$ 30
Total Administrative:		***$ 950***	$ 950
Payroll			
Administrative Payroll		$ 350	$ 350
Maintenance Payroll		$ 300	$ 300
Fringe	15.0%	$ 98	$ 98
Payroll Taxes	7.65%	$ 50	$ 50
Total Payroll:		***$ 797***	$ 797
Maintenance			
Decorating (unit make ready)		$ 75	$ 75
Repairs		$ 500	$ 500
Security		$ -	$ -
Grounds (landscaping, snow removal)		$ -	$ -
Building supplies		$ 80	$ 80
Service contracts (HVAC)		$ 150	$ 150
Other		$ -	$ -
Total Maintenance:		***$ 805***	$ 805
Operating:			
Fuel (heating & hot water)		$ -	$ -

Electric	$ -	$	-
Water/Sewer	$ 300	$	300
Trash removal	$ -	$	-
Janitorial	$ -	$	-
Exterminating	$ 30	$	30
Telephone	$ -	$	-
Other	$ -	$	-
Total Operating Costs:	***$ 330***	$	330
Taxes & Insurance:			
Real Estate Taxes	$ 400	$	400
Insurance	$ 300	$	300
Other Taxes, Licenses, Fees	$ 30	$	30
Total Taxes:	***$ 730***	$	730
Total Annual Operating Expenses:	***$ 3,612***	$	3,612
		$	-
		$	-
NOI Before Reserves & Debt Svc:	***$ 3,642***	$	3,642
		$	-
		$	-
Reserves:		$	-

	Per Unit	Annual		
Replacement Reserve	$ 500	$ 500	$	500
Operating Reserve	$ 80	$ 80	$	80
Cashflow Before Debt Service:		$ 3,062	$	3,062
Debt Service (See Terms Below)		$2,551.48	$	2,551
Cashflow After Debt Service		***$510.30***	$	510

Supportable Debt Service Calculation:

Required Debt Service Coverage (Ratio):	1.2
Loan Amortization Period (in years)	20
Interest Rate	7%

Supportable Debt on Terms Above:	***$ 27,424.68***	$	27,425

(This figure ties to the Development Budget/Sources & Uses)

Sample Single-Family Rental 20-Year Cash Flow Projection

Project Name: **Sample Project Name** Project Address: **Sample Project Address**
Income Adjuster: 2.25% Expense Adjuster: 3.00%

Income:	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Gross Effective Income	*$ 7,254*	*$ 7,417*	*$ 7,584*	*$ 7,755*	*$ 7,929*	*$ 8,107*	*$ 8,289*	*$ 8,476*	*$ 8,667*	*$ 8,862*
Expenses:										
Administrative	$ 950	$ 979	$ 1,008	$ 1,038	$ 1,069	$ 1,101	$ 1,134	$ 1,168	$ 1,203	$ 1,239
Payroll	$ 797	$ 821	$ 846	$ 871	$ 897	$ 924	$ 952	$ 981	$ 1,010	$ 1,040
Maintenance	$ 805	$ 829	$ 854	$ 880	$ 906	$ 933	$ 961	$ 990	$ 1,020	$ 1,051
Operating	$ 330	$ 340	$ 350	$ 361	$ 372	$ 383	$ 394	$ 406	$ 418	$ 431
Taxes & Insurance	$ 730	$ 752	$ 775	$ 798	$ 822	$ 847	$ 872	$ 898	$ 925	$ 953
Total Expense:	***$ 3,612***	***$ 3,721***	***$ 3,833***	***$ 3,948***	***$ 4,066***	***$ 4,188***	***$ 4,313***	***$ 4,443***	***$ 4,576***	***$ 4,714***
NOI (w/o Res & Debt Svc)	$ 3,642	$ 3,696	$ 3,751	$ 3,807	$ 3,863	$ 3,919	$ 3,976	$ 4,033	$ 4,091	$ 4,148
Replacement & Op Reserves	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580
Debt Service	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551
Cashflow After Debt Svc:	**$510**	**$565**	**$620**	**$676**	**$732**	**$788**	**$845**	**$902**	**$960**	**$1,017**

Income:	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16	Year 17	Year 18	Year 19	Year 20
Gross Effective Income	*$ 9,061*	*$ 9,265*	*$ 9,473*	*$ 9,686*	*$ 9,904*	*$ 10,127*	*$ 10,355*	*$ 10,588*	*$ 10,826*	*$ 11,070*
Expenses:										
Administrative	$ 1,276	$ 1,314	$ 1,353	$ 1,394	$ 1,436	$ 1,479	$ 1,523	$ 1,569	$ 1,616	$ 1,664
Payroll	$ 1,071	$ 1,103	$ 1,136	$ 1,170	$ 1,205	$ 1,241	$ 1,278	$ 1,316	$ 1,355	$ 1,396
Maintenance	$ 1,083	$ 1,115	$ 1,148	$ 1,182	$ 1,217	$ 1,254	$ 1,292	$ 1,331	$ 1,371	$ 1,412
Operating	$ 444	$ 457	$ 471	$ 485	$ 500	$ 515	$ 530	$ 546	$ 562	$ 579
Taxes & Insurance	$ 982	$ 1,011	$ 1,041	$ 1,072	$ 1,104	$ 1,137	$ 1,171	$ 1,206	$ 1,242	$ 1,279
Total Expense:	***$ 4,856***	***$ 5,000***	***$ 5,149***	***$ 5,303***	***$ 5,462***	***$ 5,626***	***$ 5,794***	***$ 5,968***	***$ 6,146***	***$ 6,330***
NOI (w/o Res & Debt Svc)	$ 4,205	$ 4,265	$ 4,324	$ 4,383	$ 4,442	$ 4,501	$ 4,561	$ 4,620	$ 4,680	$ 4,740
Replacement & Op Reserves	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580	$ 580
Debt Service	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551	$2,551
Cashflow After Debt Svc:	**$1,074**	**$1,134**	**$1,193**	**$1,252**	**$1,311**	**$1,370**	**$1,430**	**$1,489**	**$1,549**	**$1,609**

Guide to Completing Development and Operating Pro Formas And Cash Flow Projections

A. DEVELOPMENT PRO FORMA

This worksheet is used to calculate your total development budget. It includes all uses of funds for hard and soft costs as well as sources of funds. From the Operating budget worksheet, it carries over the amount of a mortgage loan that the project can support, then subtracts the mortgage amount and developer equity by formula to determine the required NSP funding amount.

Acquisition Costs

In this version separate lines are shown for land and building costs, although these could be combined into one line item if desired. Soft costs related to acquisition, such as the appraisal and closing costs, should be listed under soft costs.

Construction Costs

The amount should be estimated until there is a contract, then the actual contract amount should be entered. Besides the "hard" costs of materials and labor, the contract price will typically include such components as an allowance for the contractor's project-related expenses or "general requirements" such as building permits, fencing around the site, temporary storage for materials, the contractor's overhead/profit, and the cost of a performance bond or letter of credit provided by the contractor to insure that the project will be completed (if required). This amount should also include site improvements such as excavation for foundations or utilities, grading of the site, walkways, on-site roads, landscaping, outdoor lighting or parking spaces. Estimates of construction costs for single-family rental rehab projects are usually completed by a rehabilitation specialist based on a work write-up. If substantial rehab or structural repairs are involved, the estimate or a portion thereof might be created by an architect with input from a engineer. In the case of single-family rental rehab projects funded by NSP, limited off-site infrastructure costs might be included that are crucial to making the home marketable. This could include work repairing contiguous and nearby sidewalks or alleys.

Including a construction contingency amount outside the construction contract is typical and advisable. Usually, the amount of contingency funds is not shared with the contractor. The contingency is used to fund change orders. Typical contingency amounts for rental rehab projects are 10% to 15%. Typically, the more carefully the project has been evaluated and specifications identified, the lower the contingency amount needed.

Soft Costs

• Architectural fees should be based on estimates from an architect. These fees may be based on a certain percentage of the construction contract amount, a fee per dwelling unit, a flat fee for services, or another basis. With rental rehab projects, the specifications and cost estimates are often completed by a rehab specialist, either a specialist on the developer's staff or a contracted specialist. Note that design and construction management costs could be $0 for budgeting purposes if the developer fee has been calculated to pay for all project planning and management costs.

• The engineering fee should also include mechanical or structural engineering costs, if any, incurred as part of the design process.

• Environmental review costs could include the cost of a third-party contractor completing reviews required to determine clearance; the third-party reviews would need to be approved by the grantee or other "responsible entity".

• A survey prior to acquisition may or may not be required by NSP grantees for single-family programs. Prior

• A survey prior to acquisition may or may not be required by NSP grantees for single family programs. Prior to providing construction or permanent financing, it may be required by the mortgage lender. A survey can reveal easements that make some of the land unbuildable.

• As-is appraisals are required in NSP for foreclosed properties, to determine if the selling price is at least 1% above the market value. It is a good practice to ask the appraiser or another entity to provide "comparable rents" for the housing units in completed condition, based on a transmittal of the plans and specifications or inspection of the unit(s) after the redevelopment is complete. The "rent comparables" should be used to establish the rents in the operating pro forma.

• Property/casualty insurance should be obtained by the developer for the interim period before builder's risk insurance comes into effect. If the developer is also the general contractor, the developer should obtain builder's risk insurance as insurance against casualty and liability risks during construction. Otherwise, builder's risk insurance is typically obtained by the building contractor and will be included in the construction contract amount, above. In addition, grantees typically require developers to obtain commercial general liability insurance, the cost of which is typically covered by the developer fee.

• NSP funds or other funds can be used to pre-fund a replacement reserve so long as the amount is reasonable and as required by a lender or equity investor.

• Operating reserve - Pre-funding this reserve can cover the cost of operating the property while lease up is occurring, or during periods when the property is not fully leased up. In this example, the operating reserve was calculated conservatively as two month's rent revenues. To be funded by NSP, HUD requires that this amount be reasonable and as required by a lender or equity investor.

• Tenant relocation- For occupied properties requiring relocation of tenants, the developer agreement should spell out whether the financial and management responsibilities of tenant relocation lie with the grantee or developer.

• Rent-up marketing costs - This line item includes the estimated costs of rent-up, such as advertising. Developers should make sure that the staffing costs of rent-up are covered either in the development budget or in the operating budget for the first year, but not in both pro formas.

• Soft cost contingency - This is a contingency amount that may be used if one or more soft costs are higher than anticipated.

• Developer fee - This is the fee a developer charges to the project for their time and risk. Developer fees as a percent of total development costs generally fall between 10% and 15%. If funded by NSP, HUD requires that the fee be reasonable and customary in the market for this type of development project. Developer fees should be calculated based on the estimated time, effort and risk required of the developer. In general, higher developer fees are allowed if the developer is not being reimbursed by any funding source for construction financing costs and holding costs and/or has equity at risk in the project. Fees are typically lower if NSP or other sources are funding all holding costs and the developer has little or no equity in the project. In general, fees should also be lower for "easy" projects -- such as acquiring and selling homes in good condition that require little or no rehabilitation. Sometimes fees are established as a specific dollar amount per dwelling unit; this may be appropriate in projects where the per-unit development costs are relatively low. For example, 15% of a $40,000 total development cost may not be sufficient incentive for a developer to participate. Finally, it is generally not a good practice to both pay a fee and also reimburse the developer for staffing and other internal costs; this raises the possiblity of "double dipping."

B. OPERATING PRO FORMA

The Operating Proforma worksheet is designed to summarize a rental project's bedroom distribution, income targets, operating income and expenses, net operating income (NOI) before debt service, estimated debt service (from the Operating page) and the NSP gap financing needed. This example shows only a single rental unit and should be adapted as needed by the individual project.

• First enter the Project Name, Developer Name and Address of property.

• Enter the number of dwelling units of each type. A proforma could be used for several scattered-site units in one project, but with single-family rentals, the pro forma will typically be for a single dwelling unit, though it might be for a 2-4 unit property.

• Enter the estimated monthly rental amounts. These should be based on "rent comparables" of similar units in the vicinity of the project, in conditions similar to the after-redevelopment condition of the rental unit(s) in the project.

• No "other income" is included because single-family rentals do not have income from sources such as common laundries or renting a function room.

• Next, enter your project's estimated annual expenses in the expense line items. These should be based on past experience of the developer or data obtained from similar types of rental projects. Maintenance costs of detached or semi-detatched single-family rentals are typically higher than for low-rise apartments. However, tenants in scattered-site rental units are typically responsible for grounds maintenance, per their leases.

• Net operating income (NOI) is calculated by subtracting total operating expenses from gross effective income. This indicates the amount of income available to pay debt service and provide for "debt service coverage."

• "Supportable debt" is then automatically calculated by a formula based on the NOI and the assumptions in the "supportable debt service calculation" grid. In this example, the calculation assumes a debt service ratio of 1.2, which means that the NOI must be 1.2 times (or 20% higher) than the amount available for debt service. The debt service amount is also calculated automatically based on the supportable debt amount.

B.   20-YEAR CASH FLOW PROJECTION

It is a standard requirement of lenders for borrowers to provide a multi-year cash flow projection for a period of years equal to the term of the loan. This projection spreadsheet allows users to enter assumptions

about inflation in rents and operating costs which automatically calculate increased income and expense amounts for each year. This projection is used primarily to demonstrate that the debt service can be paid in each year.