

Due Diligence:

Financial Feasibility



Entertainment and Education for the next 30 minutes

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Financial Feasibility and Proformas

The process is **fluid** and evolves, being nimble is key

Its almost entirely **Theoretical** at an early stage

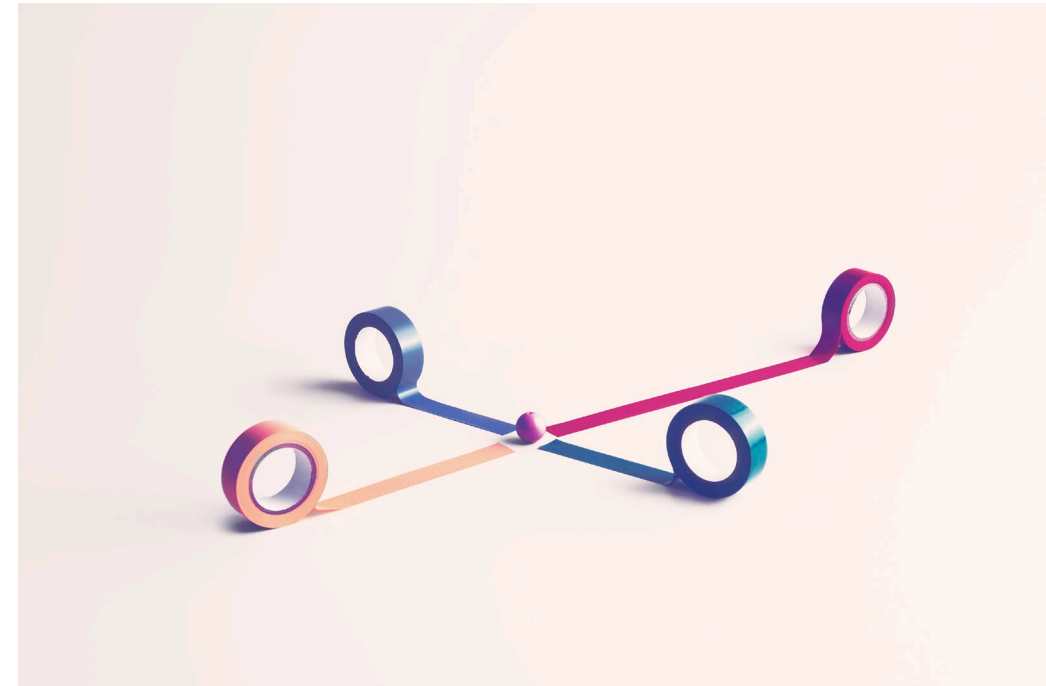
Assumptions, lots of them implicitly linked to outcomes

Development take years, due diligence is Months / Weeks – **Its Fast Paced**

Things will **Change**, it always does and always will

Fluidity

- Information will evolve, pre-submission it might be high level then once the due diligence countdown begins more documents tend to appear
- The level of diligence moves from square foot high level to a more fleshed out pro-forma model, research and understanding (even consulting help)
- Its constant change, rerunning numbers, running them again and again till you arrive at a place of comfort
- Often the design will evolve, change and evolve again; optimizing, refine, value manage, add a parking level, delete it again, and tweak on tweak.
- Being nimble is critical in fluid times



Theoretical

70-75% Assumptions

+

5-10% Known Facts

+

20% Leap of Faith / Educated Guess

Theoretical, its all about viewpoint



The Optimist



The Pessimist



Assumptions, lots and lot and lots and more

- Revenue
- Cost
 - Ground Conditions for foundations, tanking etc | Contamination
 - Construction methodology / Restrictions / Challenges
 - Quality / Target market
 - Escallation Risk
 - Government Charges and Taxes
 - Consultants, lots of them
- Schedule, time for approval, sales and construction
- Sellable efficiently
- Parking needs
- Height, Building Area (Density, FSI), Suite Sizes
- Sustainability
- Affordable housing
- Financing, cashflow, waterfall and potential interest rates
- Sources of Equity
- Rental or Condo
- LPAT or steady as it goes?
- Contingency
- Phasing, sales velocity, or lease up period / stabilization
- Etc. Etc. Etc.

One off if not The most important thing in Due Diligence is...

PROJECT STATISTICS



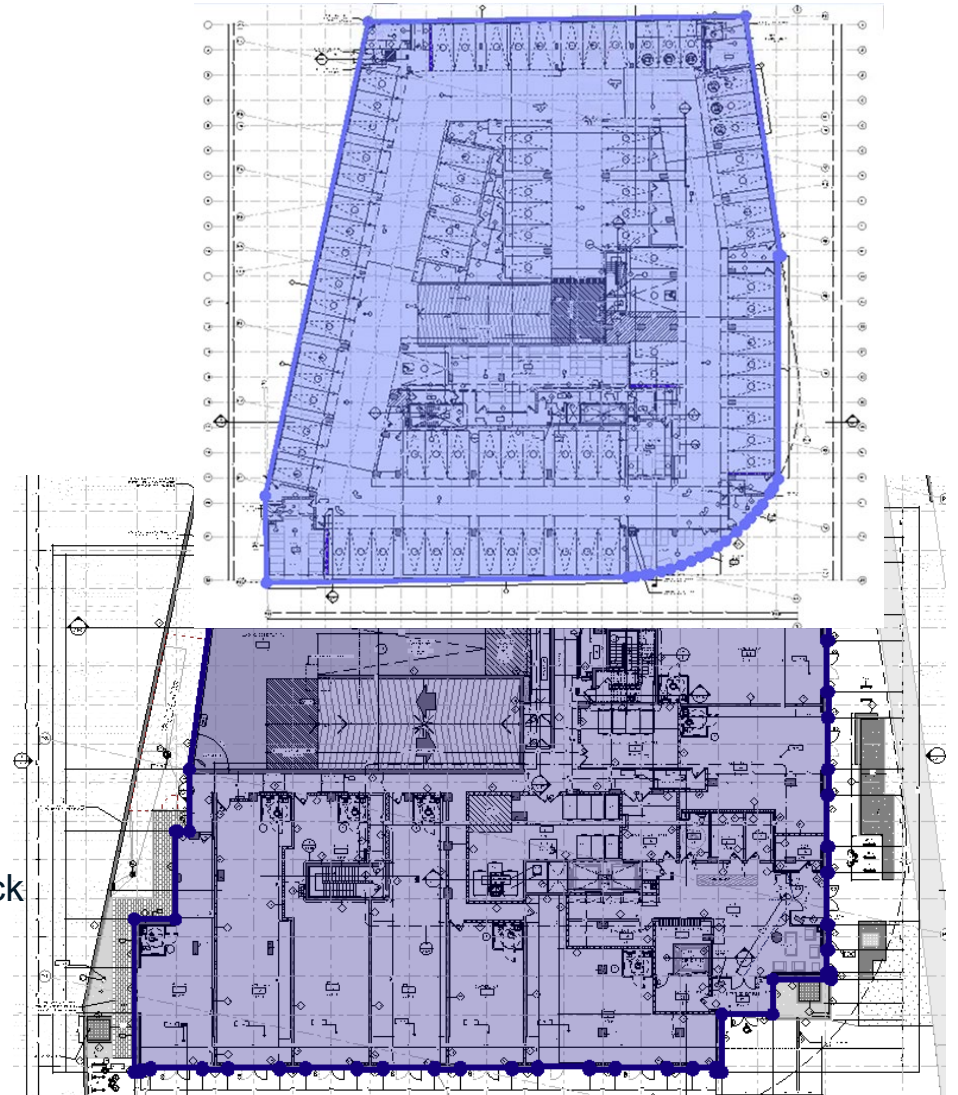
Stats – GCA, GPA and TCA

GPA (Gross Parking Area): Above/below-grade parking level which is enclosed where the area is intended for parking vehicles (aka not surface parking)

GCA (Gross Construction Area): Any enclosed above grade space which is surrounded is enclosed to acceptable occupational standards Excluding Parking or Balconies.

TCA (Total Construction Area) = GPA + GCA

Method: Measure to the outside face of enclosing walls for the area on each floor without any deduction for small openings (accommodate services) within the floor area. You would deduct for large voids, such as double height lobby or garbage truck area.



Watch out for GFA.....i.e City of Toronto Zoning By-law

Gross Floor Area Calculations for an Apartment Building

In the Residential Zone category, the **gross floor area** of an **apartment building** is reduced by the area in the **building** used for:

- (A) parking, loading and bicycle parking below **established grade**;
- (B) required **loading spaces** and required **bicycle parking spaces** at or above **established grade**;
- (C) storage rooms, washrooms, electrical, utility, mechanical and ventilation rooms in the **basement**;
- (D) shower and change facilities and **bicycle maintenance facilities** required by this By-law for required **bicycle parking spaces**; [By-law: 839-2022]
- (E) indoor **amenity space** required by this By-law;
- (F) elevator shafts;
- (G) garbage shafts;
- (H) mechanical penthouse; and
- (I) exit stairwells in the **building**.

Stats – Sellable

Apartments: Net Sellable Area (NSA) or Net Rentable Area (NRA)
Measured per Tarion Bulletin 11
A tolerance of 2% on total area is acceptable
Target is 78-80% of GCA, as low as 76% on tall towers

Retail / Office: Net Rentable Area (NRA)
Measured per BOMA Standards
Target is 90% of GCA for say an office

Industrial: Typically, the entire building

Rules of Thumb - Design

Total Sellable Efficiency

- 78-80% up to 40 Storey Tower
- 74-76% Over 60 Storey Tower

Area per parking stall

- Super efficient 400/sf per stall
- Average 475/sf per stall
- Downtown 550/sf+ per stall

Average suite size – Varies by location

GFA to GCA in TO – Add 10% to the area (can be as high as 13%)



Construction Estimate – Example of a quick calc High Rise

Information Provided:

GFA	250,000SF
Site Area	25,000SF
FSI	10.0
Max Height	24 Storeys

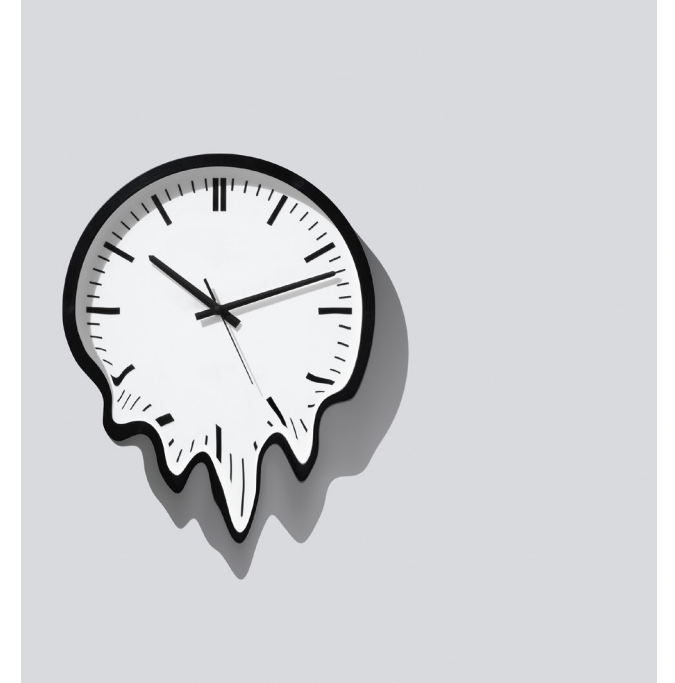
Quick Calc:

GCA $250,000 \times 1.10$	270,000SF
Units $270,000/850SF$	323
Parking $323 \times 0.4 \times 475sf$	61,370SF
Parking $61,370 \times \$225$	\$14M
Tower $270,000 \times \$350$	\$95M
Site $25,000 \times 45$	\$1M
Total	\$110M or \$407/SF



Construction Schedule – Example of a quick calc simple high rise

- 8 Weeks for Shoring Mobilization and Vertical Drilling
- 4 Weeks per Level Excavation (2 months for Shale Excavation)
- 4 Weeks Tower Crane Base and Erection
- 8 Weeks for Foundations, Lowest Level Vertical Structure, Underslab Drainage and SOG
- 4 Weeks per level below grade structure
- 1 – 2 Months per level Transfer Slabs / Amenity Floors
- 1 Week per floor typical structure
- Additional 1 week per floor at change of layout / re-skin fly tables
- 4 Weeks for Mechanical Penthouse / Elevator machine Room
- 20 – 25 Weeks for first elevator, concurrent 20 weeks for mechanical penthouse and Life Safety
- 20 Weeks After Weather Tight for Suite Finishes and Inspections
- 10 Statutory Holidays per Year
- 30 – 35 days / Annum Weather Delays (Wind, Rain, Extreme Cold) for Excavation, Structure and Enclosure



Soft Costs

Land, Residual or Ask – VTB?

DM Fee, include and how much?

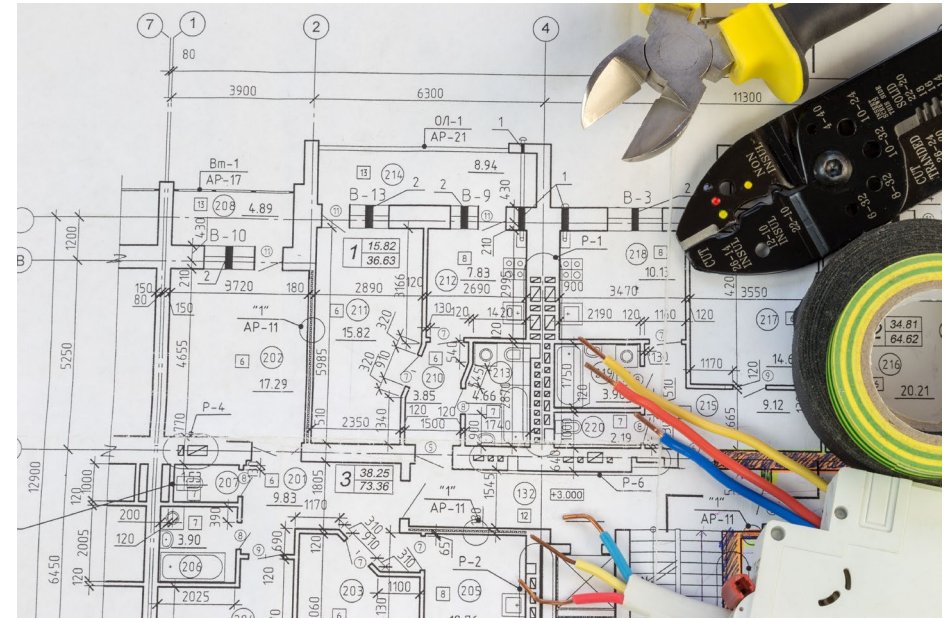
DC's, based on today or future?

Consulting Fees, 3-4% of Construction

Brokers, % of sales for outside

Interest rates, this is fun right now....

Contingency, high no project low lots of equity



Back of a Cigarette Packet Math on a Condo

Revenue:

Revenue	$\$1,300/\text{SF} \times 240,000\text{SF}$	= \$312M
Parking and Lockers		= \$15M
Ddt HST		= (29M)
Total Revenue		= \$298M

Cost:

Land	$\$250/\text{SF} \times 270,000$	= \$68M
Hard Costs	$\$450/\text{SF} \times 300,000$	= \$135M
Soft Costs (60% of hards)		= \$81M
Total Cost		= \$284M

Profit = \$14M

Need 15% on cost = \$42M can pay \$40M for land or change assumptions



Summary, example 2022 Condo

123 Street
 Toronto, ON
 Project Number 20130.199999.000
 Date February 15, 2022
 Report No. 15 M AG, 1 M BG, 200 Condo Units

EXECUTIVE SUMMARY

\$38,659,000

Total Projected Profit

\$193,297

PROFIT /UNIT

\$242

PROFIT /sf NSA

Development Margin **26.34%**

Project IRR **13.99%**

Equity IRR **54.31%**

Return on Equity **193.30%**

Equity Multiple **2.9x**

Revenue assumptions are based on indicative market comparables and should be verified by a qualified appraiser.

	Total	Total/GFA	Total/NSA	Sellable Units	Total / Unit
		160,000 sf	140,800 sf		
Market Residential - Condo	\$197,120,000	\$1,232	\$1,400	200	\$985,600
Residential Revenue - Sellable Parking Units	\$3,000,000	\$19	\$21	50	\$60,000
Residential Revenue - Sellable Locker Units	\$1,200,000	\$8	\$9	200	\$6,000
Gross Residential Revenue	\$201,320,000	\$1,258	\$1,430	200	\$1,006,600
Less: Projected HST on Value - Residential Condo	(\$18,912,920)	(\$118)	(\$134)	-9.39%	(\$94,565)
Add: Closing Adjustments - Residential	\$3,000,000	\$19	\$21		\$15,000
Add: Purchaser Upgrade Income	\$0	\$0	\$0		\$0
Total Projected Revenue	\$185,407,080	\$1,159	\$1,317	200	\$927,035
Less: Residual Land Value	(\$32,000,000)	(\$200)	(\$227)		(\$160,000)
Less: Capital Costs (excl. Land)	(\$114,747,607)	(\$717)	(\$815)		(\$573,738)
Total Project Costs	\$146,747,607	\$917	\$1,042	200	\$733,738
Total Projected Profit	\$38,659,473	\$242	\$275	200	\$193,297

Revenue (condo example, 2022)

123 Street
Toronto, ON
Project Number
Date
Report No.

20130.199999.000
February 15, 2022
15 MI AG, 1 MI BG, 200 Condo Units

REVENUE SUMMARY

\$185,407,080

Total Net Value

\$1,317 / SF NSA
\$927,035 / Unit

Revenue assumptions are based on indicative market comparables and should be verified by a qualified appraiser.

	Units	/Unit	Total	Area	\$/sqft
Market Residential - Condo	200 units	\$985,600	\$197,120,000	140,800 sf	\$1,400 /sf
Saleable Parking Revenue (assumed 90% saleable)	50 units	\$60,000	\$3,000,000		
Saleable Locker Revenue	200 units	\$6,000	\$1,200,000		
Gross Sales Revenue - Residential Condo	200 units	\$1,006,600	\$201,320,000	140,800 sf	\$1,430 /sf
Less: Projected HST on Condo Sales Revenue		(\$94,565)	(\$18,912,920)	9.39%	
Add: Closing Adjustment (Recoveries)		\$15,000	\$3,000,000		
Total Project Revenue/Value	200 units	\$927,035	\$ 185,407,080	140,800 sf	\$1,317 /sf

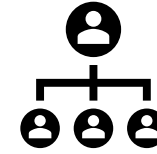
Typical % Split Condo of Total Cost

Land



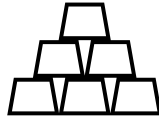
15-20%

2-5%



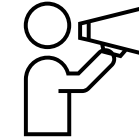
Admin

Government (excl HST)



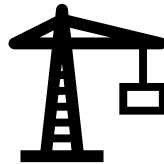
15-20%

4-6%



Sales & Marketing

Construction



45-50%

0.1-0.5%



FF&E

Consultants



2-3%

7-10%



Financing

Fast pace, Quick Decisions and Lots of Risk

Time flies, decisions need to be made

Eventually a decision must be made, and often months of work turn into a quick decision

Major Risks that need to be dealt with, you can not avoid or defer include:

- Servicing and capacities
- Section 37 Agreements (depending on the age of the lot)
- Heritage (which is anything in TO these days)
- Escallation (costs, development charges etc.)
- Planning approvals, especially if not zoned
- Time, Toronto is a disaster others not as bad
- Soil conditions (tanked or poor soils could add \$10M+)
- Neighbors, the NIMBY Tree Hugging Brigade
- Politicians, especially unhinged ones

Change, along with death and taxes

100% of Pro-forma's look different at the end than they did during due diligence.

Not 50%, not 75%, 100%

AND almost everything will change, its how you manage it that sets you apart; turn risk into opportunity



The winner is.....so you always want exit strategies

The one who took an educated risk

or

The one that made a huge error



Exit strategies

Not zoned, get entitlement and sell land (don't mess it up)

Find a JV Partner to de-risk, bring in expertise and avoid lunatics with no cash

Execute, you better know what you're doing and be able to raise equity

Find someone stupider than you to sell it to if it's a bad project (they are out there)

Never be afraid to walk away, it should be more No than Yes

Each deal is unique they do not all work for YOU

No matter what you hear the person down the street is not building for 50% less than you

If it looks too good, there is something wrong 9 times out of 10; quadruple check

The devil is in the detail, rules of thumb are the road to hell

You can sell your self belief in anything, its harder to walk away

1-1 always = 0, you can not beat basic math



The House of Cards



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Thank you

