Pro Forma Training: Acquisition/Rehabilitation

Purpose

To share affordable housing pro forma fundamentals to help aid emerging developers in structuring real estate development opportunities and assessing project feasibility.

Instructions

Use this document to help guide you through the Proforma. Complete the BLUE cells on the pro forma with project specific information. White cells will calculate based on the data inputted in the blue cells.

Unit Matrix & Rent Levels – Start Here!

Fill in the Unit Mix & Rent Levels grid with the property unit mix (# of bedrooms, bathrooms, and total # of units)

- Fill in the Net Rent Column with **existing rents** being paid by tenants at the property (a current rent roll is required)

    o **GMHF will underwrite existing rents, regardless of any future plans to increase rents or transition units to a rental assistance model.**

    o GMHF's affordability requirements maintain that at least 75% of units must be income- and rent-restricted at 80% AMI, including either 40% of units at 60% AMI or 20% of units at 50% AMI. Up to 25% of units may be market rate.

    o Most existing rental properties naturally are within GMHF's requirements.

- Utility Allowance Column – You will need to know the breakdown of utilities paid by the owner versus those paid by the tenant.

    o Visit HousingLink's website and navigate to the geographic location of the property to find the Utility Allowances for tenant paid utilities. You can use the chart off to the right in the pro forma to help calculate the allowance.

    o The total will then get entered into the "Utility Allow" column of the Unit Mix grid based on unit size.

- This will calculate the Gross Potential Rent for the property.

Income & Expenses

- If 3 years of property operating statements are available, fill out the total income and expenses columns under "Actual Totals" for the prior 3 years. Use this information, along with your planned budget, to estimate the income and expenses for the first year of property operations.

- **GMHF will underwrite to the greater of GMHF benchmarks for operating costs, or recent historical. GMHF's benchmarks (per unit):**

    o Management Fee: $900 per unit
    o Administrative: $900 per unit

- o Maintenance: $2,000 per unit (including trash/rubbish removal)
- o Utilities: $1,200 per unit (but rely most heavily on historical)
- o Insurance: $1,000 per unit (will underwrite actual insurance quote)

- GMHF assumes 10% vacancy for Small NOAH properties under 15 units and 7% vacancy for medium-sized NOAH properties 15+ units. A 5% vacancy rate may be used at GMHF's sole discretion if the developer has an established track record of maintaining a low vacancy rate and it is supported by the local market and historical operations of the property.

- Real Estate Taxes – Use the Real Estate Tax Estimate charts to estimate taxes. Enter the assessor's current Estimated Market Value (EMV) and current tax rate to calculate estimated taxes based on whether or not the property is currently enrolled in 4d or not (most typical is not).

  - o Properties may be eligible for reduced property taxes under Class 4d(1), which reduces the state property tax classification rate from 1.25% to 0.25% for qualified affordable units.

  - o Class 4d(1) tax rate requires eligible financing from a governmental funding source, but Minneapolis, St. Paul, and other cities have specific programs to help properties qualify for a 4d(1) tax rate. If a property will not qualify for a 4d tax rate, use the "post-sale" property tax in cell T90 or Y90 as the real estate tax for underwriting.

  - o If the property is in a community where 2% or more of the tax base is already classified as 4d(1), GMHF will underwrite 4d(1) only if the local city council approves a resolution authorizing the project to apply for 4d prior to closing with GMHF. The list of communities where is city resolution will be required is available on Minnesota Housing's website.

First Mortgage & Mezzanine 2nd Mortgage Sizing Calculations

- The maximum first mortgage and mezzanine 2nd mortgage loan sizing will calculate based on the lower of Net Operating Income (NOI) based on value and NOI based on debt coverage.

- First mortgages will have a maximum term of 30 years, and 15 years for mezzanine 2nd mortgages

- Interest Rate:

  - o Calculate the underwritten interest rate using the table to the right, and the link to the U.S. Department of Treasury website. Select Time Period = Current Month, then hit Apply. Follow the column down to find the most recent 30-Year Treasury rate and enter that in cell Q96.

  - o This will populate GMHF's underwritten rate, including a 0.50% cushion in case rates increase prior to closing.

  - o Your loan officer can also help determine an appropriate rate for loan sizing.

Sources & Uses

- **Uses:**
  - o Enter the acquisition cost (purchase price) for the property.

  - o The rehab scope will be determined by a Capital Needs Assessment and cost analysis. GMHF's baseline benchmark is $10,000 per unit.

- ▪ GMHF recommends borrowers to identify likely capital needs in advance and work with trusted contractors to determine costs early in the process so that capital needs can be addressed in their initial negotiations with the seller and can be reflected in the project costs more accurately.
  - o Enter any additional professional fees/soft costs or financing fees for the project, if known.
  - o GMHF required fees and reserves will automatically populate.
- **Sources:**
  - o The maximum sizes for GMHF loans will automatically populate in the sources section
  - o Add in any additional sources of funds and/or owner equity available to the project
  - o Line 38 of the sources will determine if there is a gap based on initial feasibility

Additional Resources

- **Quick Start Guide** – Outlines GMHF's process, timeline, and due diligence requirements
- **GMHF Term Sheet** – Outlines GMHF's loan products and terms