



MICHIGAN  
ECONOMIC  
DEVELOPMENT  
CORPORATION

# PRO FORMA 101

A how-to guide for MEDC's pro forma Excel document



If you have real estate that you are considering developing or redeveloping, **completing a pro forma analysis can help you evaluate important elements of the project.** For example, a pro forma analysis can determine how many residential units or how much commercial space can or should be included based on how much revenue is needed to cover costs associated with operating the project.

The MEDC pro forma addresses the major components of a typical commercial and/or mixed-use project. The goals of the pro forma include:

- Organize the project’s total development budget to identify all development costs.
- Organize the development’s projected operating revenue and operating expenses to determine if the development generates positive cash flow.
- Organize the project’s potential sources of funding, including debt, grants and developer equity.

**When completing the MEDC pro forma, enter information into the light blue boxes as directed by the instructions within the pro forma Excel document; let the pro forma do the calculations, do not change the built-in formulas.**

This guide focuses on the three tabs within the pro forma that will require the most information to be completed: **“Revenue Input,” “Pro Forma,”**

**PRO FORMA**  
**A financial model that is used to evaluate the financial feasibility of a real estate development project over time.**

and **“Sources & Uses.”** The remaining tabs will primarily be populated based on information entered in the three worksheets explained in this guide.

The information entered in a pro forma will often be based on assumptions—information that is not known but is based on what is expected will happen in the future based on the information available

at the time. As you proceed with development, you will continually refine assumptions based on new information, updated architectural designs, revised cost estimates and many other factors. The following guide has been developed to assist interested building owners, developers and other stakeholders in completing the MEDC pro forma, which is part of the application process for many MEDC community development tools, resources and incentives. If you have questions about the pro forma or any content in this guide, please reach out to MEDC’s Community Development staff for additional information and assistance.

*You do not need to complete all fields in the pro forma; focus on elements that apply to your project. If you are unsure about a field, please reach out to your MEDC Community Assistance Team representative.*

# REVENUE INPUT WORKSHEET

**INSTRUCTIONS:** This worksheet is where you **enter revenues expected to be generated by the property** once construction is complete. Revenue from each use/tenant should be entered in the appropriate table, including residential, commercial, hospitality and parking/other. The information entered here will automatically transfer to specific places in the “Pro forma” and “Cash flow” worksheets.

## INCOME RESIDENTIAL TENANTS

In this table, enter information about any residential rental units you plan to include in the project. Enter one line for each unit type; unit type is determined by the number of bedrooms, bathrooms and unit size.

### Fields you need to complete

**Unit Type** Drop-down menu; choose the appropriate number of bedrooms.

**# Units** Enter number of units with that bedroom count.

**Baths** Drop-down menu; choose the number of bathrooms.

**Square Feet** Enter the average square feet per unit for that unit type. For example, if there are two units that will have one-bedroom and one-bathroom, but one unit will be 500 square feet and the other will be 600 square feet, enter 550 square feet in the workbook since that is the average size of the two units.

**Monthly Rent** Enter the average monthly rent per unit for that unit type. In the example above, if rent is \$700 per month for one unit and \$800 per month for the other, you would enter \$750 as the average monthly rent for one-bed, one-bath units.

**Common Area Square Feet** Enter space that is not within a specific rental unit and will not generate income but is within the area assigned for residential use. See “Common Area Calculations” for additional information.

**Income Source** Drop-down menu to identify any other sources of income associated with the residential units; included here are items like storage fees or application fees. Be sure to enter income on a monthly basis, even if you typically receive the income annually. For example, if you expect to receive a \$150 application fee each year for two units in the building (for a total of \$300/year in application fees), you would enter \$25 in monthly income ( $\$300 \text{ a year} / 12 \text{ months a year} = \$25 \text{ per month}$ ).

### HOW DO I KNOW WHICH ASSUMPTIONS/INPUTS TO USE?

Revenue information can come from a variety of sources, including market studies, information about similar developments (often called “comps,” short for comparable), other people who have completed similar projects, current listings for similar spaces, online research, news articles about recent developments in your area, local brokers/Realtors®, and community partners (Main Street, chamber, DDA, etc.).

### INCOME INCREASES & VACANCY RATE

Adjacent to each income table is a table to enter assumptions for income increases and vacancy rate. “**Income increases**” are the amount revenues are expected to increase each year; often this increase is tied to annual rental rate increases included in tenant lease agreements.

**Vacancy rate assumptions** should be based on how long it is expected to fully lease the property, how frequently tenants will turnover, and how long it will take to re-lease space when tenants do leave.

Note: Default rates for both of these assumptions are pre-set on the revenue input tab. These should not to be changed without demonstrated rationale or documentation to support.

**Note:** You only need to complete the **light blue boxes** that apply to your project; anything in white will be automatically calculated.

# REVENUE INPUT WORKSHEET

## INCOME COMMERCIAL/ RETAIL/OFFICE TENANTS

In this table, enter information about any commercial, retail or office tenants you plan to include. Enter one line for each tenant; this is typically based on the number of individual spaces you plan to include.

### Fields you need to complete

**Description** Enter the type of tenant you expect to recruit (i.e., retail, office, etc.). If the space has been pre-leased, enter the name of the actual tenant.

**Lease Type** Drop-down menu; enter the type of lease each tenant is expected to have. See “Commercial Lease Descriptions” if you’re unsure which option to select.

**Square Feet** Enter the square footage leased to each tenant.

**Rent/Square Foot** Enter the annual rent per square foot that each tenant will pay. For example, if a tenant is leasing a 1,000-square-foot space and pays \$1,800 each month, the annual rent per square foot entered here is \$21.60 ( $\$1,800 \times 12 \text{ months} = \$21,600 / 1,000 \text{ square feet} = \$21.60 \text{ annual rent per square foot}$ ).

**CAM/Square Foot** If applicable, enter the annual common area maintenance (CAM) revenue per square foot expected to be received from tenants. See “Commercial Lease Descriptions” for additional information.

**Common Area Square Feet** Enter space that is not leased to a single tenant but is within the area assigned for commercial use. See “Common Area Calculations” for additional information.

**Income Source** Enter any other sources that are expected to generate income from the commercial space(s); examples could include storage space in a basement, application fees, etc. Be sure to enter the income expected from these other sources as a monthly amount.

### COMMERCIAL LEASE DESCRIPTIONS

The descriptions below are based on typical lease structures; regardless of lease type, responsibility for all expenses should be clearly defined in any lease agreement.

**Gross Lease:** Tenant pays a set lease amount; building owner pays costs associated with owning and operating the building (taxes, insurance, maintenance).

**Modified Gross:** Tenant pays a set lease amount and some portion of the costs associated with operating the space.

**NNN (Triple Net):** Tenant pays a set lease amount and is also responsible for taxes, insurance, maintenance and other costs associated with operating the space.

**CAM (Common Area Maintenance):** A fee for expenses associated with operating a building that may be charged in addition to the rental rate; may be structured as a flat fee or a variable charge depending on specifics in the lease agreement. Be sure to clearly spell out how the fee will be assessed and the type of expenses that will (and will not be) covered by the fee in the lease agreement.

### COMMON AREA CALCULATIONS

Within the building, there are likely spaces that are not assigned to a specific tenant and do not generate revenue (for example, shared stairways, hallways, elevators, entries, etc.). Though these spaces do not generate revenue, you still need to include the square footage in the appropriate table on the revenue worksheet.

The total square footage of rentable and common area space will filter to the “Sources & Uses” tab to determine the construction and development costs per square foot; these calculations are one way that the project will be reviewed for feasibility and benchmarked against other similar projects in the market.

**Note:** You only need to complete the **light blue boxes** that apply to your project; anything in white will be automatically calculated.

# REVENUE INPUT WORKSHEET

## INCOME HOSPITALITY

Enter information about any hospitality uses included in the project; a separate list of individual room sizes and prices will likely be needed in order to complete this table.

### HOSPITALITY COMPONENT

For many projects, especially those that include a **hospitality component**, you will likely need a third-party analysis to generate accurate room and rental rate estimates and occupancy assumptions.

#### Fields you need to complete

**# Rooms** Enter the number of hotel rooms expected to be included.

**Avg. Daily Rate/Room** Enter the average room rate expected to be received; be sure to account for seasonal and daily rate changes in the average daily rate.

**Square Feet** Enter the total square footage for hotel rooms.

**Other Rev/Room** Enter revenue per room from other sources including food and beverage, phone and data, etc.

#### Other Income (banquet, conference, restaurant, misc.)

Enter the square footage allocated to each use; enter the expected monthly income generated by each use. Be sure to account for seasonal changes when calculating averages.

## PARKING

Enter information about parking included in the project, whether structured or surface.

#### Fields you need to complete

**# of Spaces** Enter the number of spaces for each type of parking provided (public or other dedicated).

**Square Feet** Enter total square footage dedicated to each type of parking.

**Monthly Income** Enter the expected monthly income from leasing of parking spaces.

## OTHER INCOME

Enter information about any other sources of revenue the project is expected to generate.

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# PRO FORMA WORKSHEET

**INSTRUCTIONS:** Within this tab, **the project’s stabilized income is compared to the permanent debt the project can support.** The information displayed will reflect the project’s overall revenue stream, operating expenses, proposed loan amounts, and in general, will help to inform the user of the project’s debt service capacity. Certain assumptions will carry over from the previous “Revenue Input” tab; however, project specific data related to utilities, maintenance, property management, real estate taxes, etc., will further build out the operating performance.

## DEVELOPMENT INCOME

Within this tab, information from the “Income Assumptions” on the previous “Revenue Input” tab is carried over to the top of the page, filling in the “Development Income” area. This information summarizes the projected annual gross income the project will generate based upon the previously input assumptions. **Note: the revenue information is on a per month basis and the operating pro forma is an annual “as stabilized” snapshot of the project.**

## DEVELOPMENT OPERATING EXPENSES

This category is comprised of several generic expenses related to the project’s operation and maintenance over time. The costs associated with each of these line items should reflect an annual expense.

### EVALUATING OPERATING EXPENSES

As a general rule, it is not uncommon for a renovated property to carry operating expenses between 25–45% of the overall project’s anticipated revenue. If the operating expenses are much below or above this threshold, it may be a point of further discussion.

### Fields you need to complete

**Administrative Expenses** Items contained within this section highlight expenses related to management of the rental space, marketing of the property, legal expenses incurred, etc.

**Utilities** This section should highlight natural gas or propane, electricity and/or water and sewer usage. **Note: this section should include utilities covered by the commercial tenants.**

**Maintenance/Repairs** This category assumes annual maintenance costs for things like pest control, snow removal, lawn or parking lot maintenance, janitorial services, elevator updates, etc.

**Real Estate Taxes & Tax Abatements** Significant investment in a property should increase its taxable value. Coordinate with the local assessor’s office to determine what that new assessed value is projected to be post completion. If the project will utilize an abatement of any kind, this section of the spreadsheet should reflect that annual value, or discount received.

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# PRO FORMA WORKSHEET

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**Insurance** This portion should reflect property and/or liability insurance costs projected for the project.

**Reserve Requirements/Other** Each of these sections should reflect a “nest egg” or reserve that, in time, as the property ages, will cover costs related to the replacement or repair of larger maintenance items, such as a new roof, replacement of mechanical systems, upgrades to tenant space, etc., and any other unique costs associated with the project.

Each applicable line item contains an annual value. The project will demonstrate its ability to support debt for improvements, acquisition, tenant build-out, etc. As highlighted in the “Pro Forma” tab, this will be demonstrated within the cash flow available for debt service, or net operating income (NOI).

## LOAN TERMS

Within this section, enter both the name of the lender(s) related to the project as well as the projected loan amount and terms for the proposed debt. Once entered, the spreadsheet will quickly illustrate how “healthy” a deal is as well as provide a ball-park level of support

lenders may have for a project based upon the debt service coverage ratio (DSCR).

For example, if the subject project anticipates utilizing a grant from the MEDC, then the lower portion of the “Loan Terms” box should have a zero (0) entered into the “override” section. However, if the project is looking for loan support from the MEDC, enter the requested amount in the fillable blue cell for this purpose.

As a general rule, if the project’s DSCR is less than 1.2:1.0 (\$1.20 in NOI for every \$1.00 in annual debt service requirement) this may be cause for further evaluation of the overall costs related to the project, estimated equity contribution, the projected revenue or expense structure, or some combination of these. Factors such as unit size, projected rents, unit mix, property cost, etc., are general indicators that are considered not only by the MEDC but also by traditional lenders when considering support of a project. A DSCR less than 1.2:1.0 could be viewed as riskier by traditional lenders. Conversely, a DSCR significantly above 1.20:1.0 could indicate additional debt could be supported.

**Note:** You only need to complete the **light blue boxes** that apply to your project; anything in white will be automatically calculated.

# SOURCES & USES WORKSHEET

**INSTRUCTIONS:** This worksheet is utilized to input the **total sources and uses of funds for the project** from acquisition to construction completion. In addition, the maximum amount of eligible incentive for the project is calculated, based on the total cost of all eligible activities. This is one calculation used in determining the financial gap and project structure.

## TOTAL DEVELOPMENT COSTS

Enter all uses of funds contributing to the physical development of the property, including acquisition (even if it has already occurred), hard costs for construction, and soft costs.

### Fields you need to complete

**Acquisition** Enter any expected or previous land or building purchase. These costs are not considered part of the total eligible project cost for purposes of financial evaluation by the MEDC, but are helpful in gaining a better understanding of the holistic project.

**Hard Costs** The first section covers work performed on the site or land to prepare it for vertical construction, including any brownfield tax increment financing (TIF) eligible activities. Complete all applicable cells. Note: eligible brownfield activities may vary by location.

The second section of **Hard Costs** includes all costs related to construction of new and/or rehabilitation of existing structure(s) on site. Complete all applicable cells, utilizing the third-party construction cost estimate, including any confirmed tenant build-out.

**Other Eligible Costs** Enter any costs related to furniture and fixtures, machinery and equipment, architectural and engineering, as well as environmental and survey work. These are considered part of the total eligible project budget. For projects seeking grant or loan incentives: within the “% Eligible” cell, enter 20%. If the project qualifies as a historic rehabilitation, then 25% can be used. A project can be eligible for an award of up to 50% of eligible investment if the population of the municipality in which it is located has a population of less than 15,000. Please see MCRP guidelines for further information on eligibility.

### Ineligible Soft Costs and Other Ineligible Soft Costs

These costs are not considered part of the total eligible investment for the purposes of financial evaluation by the MEDC but are helpful in gaining a better understanding of the holistic project. Related-party fees are considered to be any fee paid to individuals and/or entities that are benefiting financially from the project. ★

### HOW DO I KNOW WHICH ASSUMPTIONS/ INPUTS TO USE?

Include all expected sources and uses of funds based on third-party cost estimates, discussions with lenders and investors, and commitments of local support.

### PROJECT STRUCTURE

*(One piece of the development analysis process which is indicated on this sheet, used in the underwriting process)*

#### Total Project Cost

- Bank Loan

- Equity

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Project Gap

- If the gap is positive, find other sources to fill the financial gap
- If the gap is negative, the total project cost is less than the amount of total funding proposed to cover those costs (there is no gap!)

★ After completing these sections, “**Total Eligible Basis**” and “**MEDC Max Investment**” will be calculated to the right. This is merely a guide to provide a general idea of the eligible investment and eligible ask for funding.

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# SOURCES & USES WORKSHEET

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## TOTAL DEVELOPMENT SOURCES

Enter all sources of funds contributing to the project, including equity in buildings and/or land. Loan information entered in the previous pro forma tab will automatically populate in this section.

### Fields you need to complete

**Senior Debt** Enter all sources of senior debt. “Loan Information” and the “MSF/MCRP Conventional Loan” cells will automatically populate based on entry of information in the pro forma worksheet.

**Subordinate Debt/Grants** Under “MEDC Grant,” enter expected grant or loan. Enter all subordinate debt or grants from non-MCRP sources.

**Deferred Fees/Equity** Enter information on any deferred fees, cash equity from owner (as required in all projects, see MCRP guidelines for more information), any equity in land or buildings, and any other forms of equity injected into the project. **Note: the MEDC requires evidence that all forms of project funding are committed prior to MSF consideration.**

## CONSTRUCTION FINANCING

Enter the expected or confirmed construction loan provider and terms into applicable cells (include any financing expected to be needed to bridge the MSF’s investment). **Note: the MEDC requires proof of financing prior to MSF consideration, such as a term sheet from a financial institution, evidence of equity, etc.**

## SOURCES AND USES/OTHER CALCULATIONS

Enter square footage of common/other space not yet accounted for. Other than this cell, both tables will automatically populate based on information entered throughout the file.

**Note:** You only need to complete the **light blue boxes** that apply to your project; anything in white will be automatically calculated.

# ADDITIONAL WORKSHEETS

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DEPENDING ON THE PROJECT, YOU MAY HAVE ADDITIONAL ITEMS THAT NEED TO BE COMPLETED ON OTHER WORKSHEETS.

This guide focused on the three worksheets within the MEDC pro forma that require the most information to complete: “Revenue Input,” “Pro forma,” and “Sources & Uses (S & U).” Your MEDC Community Assistance Team representative can provide additional guidance on any questions related to these or other sections not covered here. Once specific project information has been entered in the pro forma, you can evaluate whether additional modifications to the project are needed for the development to be financially feasible. In addition, the potential return that the project may generate, based

upon the specific set of input assumptions, is shown on the “Dev Ret” (or Developer Return) worksheet.

## NEXT STEPS

As you move forward with the project, expect to **continually return to the pro forma to update the inputs and assumptions** as you fine tune details or receive new or updated information. Be sure to connect with your MEDC Community Assistance Team representative with any questions as you complete the pro forma and move forward with the project.

**Note:** You only need to complete the **light blue boxes** that apply to your project; anything in white will be automatically calculated.

