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Real Estate - Calculators - Systems - Tools

Globally, the most powerful Real Estate Systems, Calculators & Tools

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Masters in Valuation Technique, Data Science, Finance, Accounting, Financial Modelling

EXPLAINER - HOW TO CORRECTLY EVALUATE DEVELOPMENTS

The most common mistake is to use Gross Profit as a mechanism without (TVM)
Time Value of Money is essential to accurately compare development opportunities
It is therefore essential to make use of XNPV and XIRR which are the date-sensitive formulae for IRR and NPV

Let's consider two developments over the same time-period with differing cash flows:

Example

Apartment Block - Sales at end		We use a 8% Funding/Opportunity %	Freehold - Sales as completed	
Development A	Date	**24 month developments**	Date	**Development B**
-3 000 000	2021/01/01	Land Acquisition	2021/01/01	-3 000 000
-1 000 000	2021/02/28	Construction and professionals	2021/02/28	-1 000 000
-1 000 000	2021/03/30	Construction and professionals	2021/03/30	-1 000 000
-1 000 000	2021/04/30	Construction and professionals	2021/04/30	-1 000 000
-1 000 000	2021/05/30	Construction and professionals	2021/05/30	-1 000 000
-1 000 000	2021/06/30	Construction and professionals	2021/06/30	-1 000 000
-1 000 000	2021/07/30	Construction and professionals	2021/07/30	-1 000 000
-1 000 000	2021/08/30	Construction and professionals	2021/08/30	-1 000 000
-1 000 000	2021/09/30	Construction and professionals	2021/09/30	-1 000 000
0	2021/09/30	Land transferred to new owners - sold	2021/09/30	10 000 000
-1 000 000	2021/10/30	Construction and professionals	2021/10/30	-1 000 000
-1 000 000	2021/11/30	Construction and professionals	2021/11/30	-1 000 000
-1 000 000	2021/12/30	Construction and professionals	2021/12/30	-1 000 000
0	2021/12/30	4 house sales transferred and paid	2021/12/30	5 250 000
-1 000 000	2022/01/30	Construction and professionals	2022/01/30	-1 000 000
-1 000 000	2022/02/28	Construction and professionals	2022/02/28	-1 000 000
-1 000 000	2022/03/30	Construction and professionals	2022/03/30	-1 000 000
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-1 000 000	2022/11/30		Construction and professionals		2022/11/30	-1 000 000
-1 000 000	2022/12/30		Construction and professionals		2022/12/30	-1 000 000
32 000 000	2022/12/30		Apartments sales transfer - sold - 4 house		2022/12/30	5 250 000
32 000 000	Income				Income	31 000 000
-26 000 000	Cost				Cost	-26 000 000
6 000 000	Gross Profit				Gross Profit	5 000 000
18,75%	GP %				GP %	**16,13%**
			NOW LOOK AT THE REAL NUMBERS			
3 256 277	XNPV		It's all about timing of Cash Flows TVM		XNPV	4 009 788
21,21%	XIRR				XIRR	69,19%

Development A produces a higher GP yet Development B will produce the best ROI

Development A has a maximum Cash OUTFLOW of 32 million whilst the maximum required on Development B is 11 million

Development B allows for regular Cash Flows IN during the course of the Development, whilst Development A is at the end

It is easy to make the incorrect decision when relying on Gross Profit without using proper Formulae for TVM

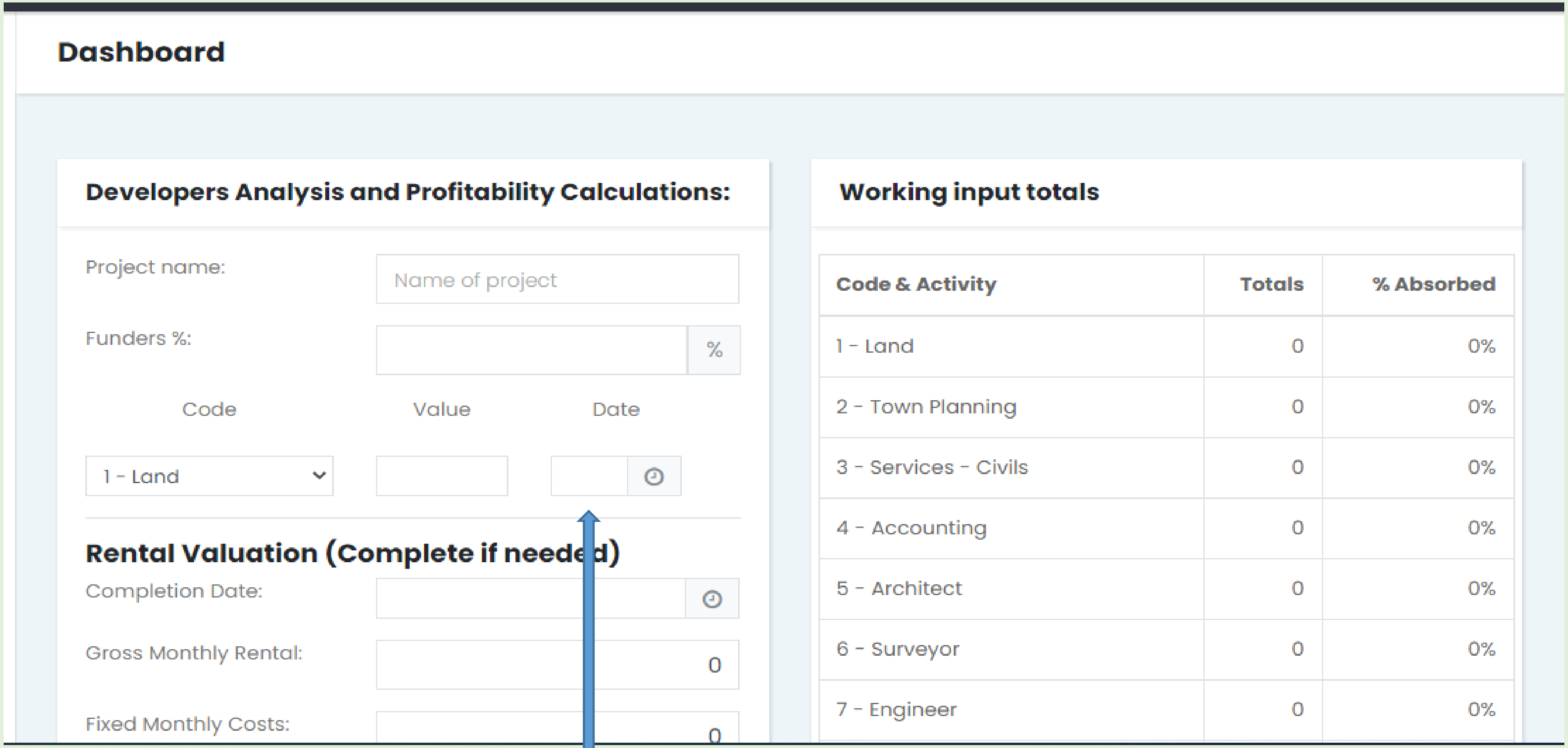
Prop Pro 24/7 Systems automate the Cash Flow, Categorise the Expenditure and Produce XNPV and XIRR

If Your Development is for Rental Stock (Not for sale), the process is the same except we perform a Commercial Valuation on the retained rental stock, and either the NPV Value or Value less Funding amount is brought into the above equation at the Fruition Date

IMPORTANT NOTES BEFORE WE SHOWCASE THE WEB-APP SOLUTION

The XNPV must produce a positive amount or else the project or land price is to high
XIRR in most cases should amount to at least 3 times that of the Funding/Opportunity Rate
It is best to perform the analysis and if the ROI is insufficient, adjust the Land Price accordingly
or try a different Model which may produce the targeted ROI

The SMART PROP PRO 24/7 SYSTEM



Dashboard

Developers Analysis and Profitability Calculations:

Project name: Name of project

Funders %: %

Code	Value	Date
1 - Land		

Rental Valuation (Complete if needed)

Completion Date:

Gross Monthly Rental: 0

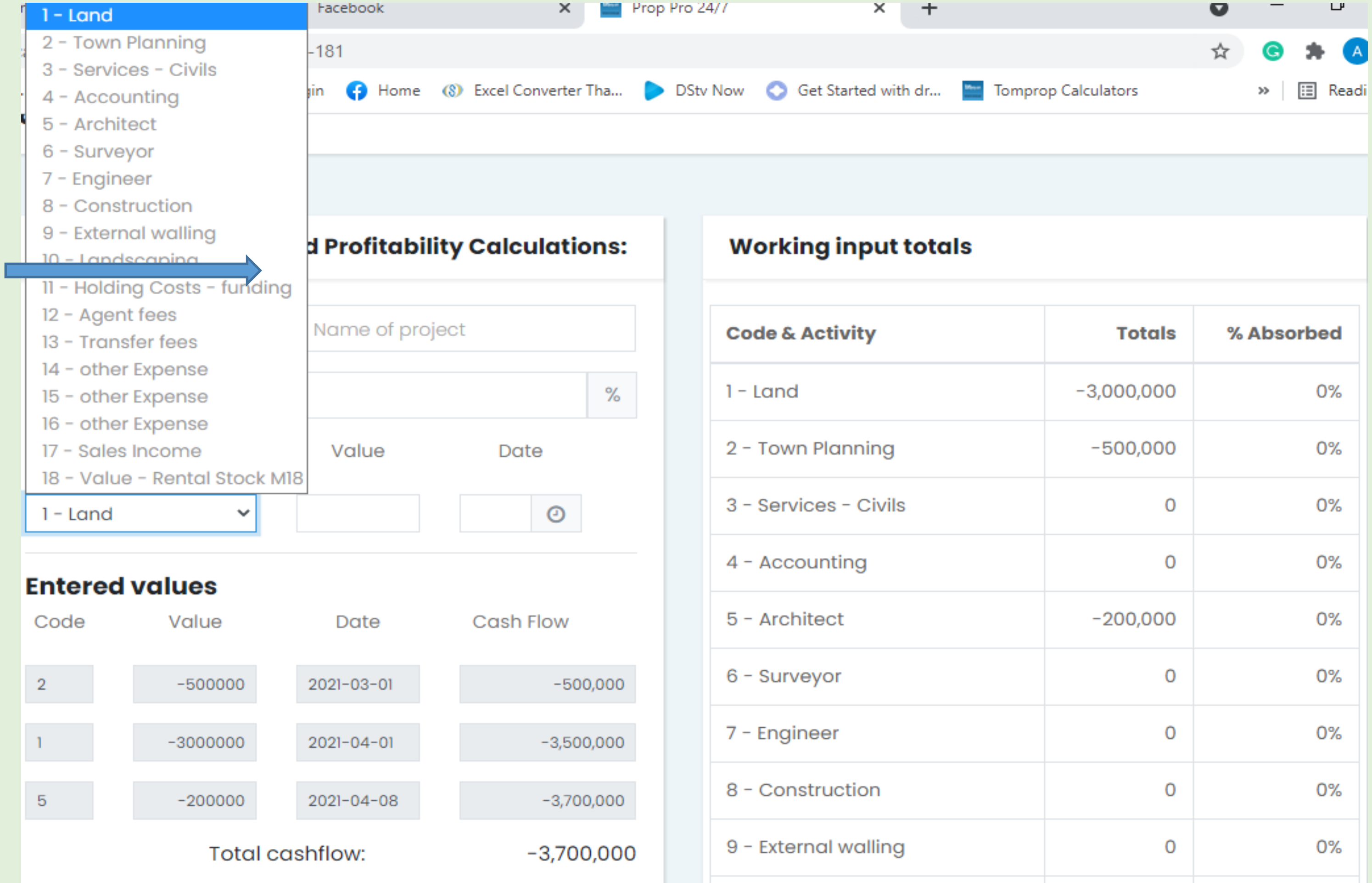
Fixed Monthly Costs: 0

Working input totals

Code & Activity	Totals	% Absorbed
1 - Land	0	0%
2 - Town Planning	0	0%
3 - Services - Civils	0	0%
4 - Accounting	0	0%
5 - Architect	0	0%
6 - Surveyor	0	0%
7 - Engineer	0	0%

The Importance of Dates for Cash Flow cannot be overstated!
By simply changing the dates, you are able to measure sensitivety

Enter, Categories Values and Dates



A simple menu driven process of all Expenditure and anticipated Income

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Total cashflow: 1,700,000

Rental Valuation (Complete if needed)

Completion Date:	2022-09-30
Gross Monthly Rental:	100000
Fixed Monthly Costs:	12000
Maintenance Provision:	4000
Net Monthly Income:	
Net Annual Income:	
Annual rental esc %:	5
Estimated Cap Rate:	9
Value based on Cap Rate:	
Deposit %:	0

16 - Other Expense	0	0%
17 - Sales/Rental Income	11,800,000	
18 - Value - Rental Stock M18	0	
Total Cost Only	-10,100,000	100%
Total Result	1,700,000	

Your AUTOMATED PROP PRO 24/7 PDF Report

EXAMPLE PURPOSES ONLY!

Developers Analysis and Profitability Calculations:

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Business name: Demo
Type:
Broker Name:
Contact Details:

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Development Analysis and Returns			Completed Property Valuation	
Funders %	8%		NPV	4,986,438
XNPV	10,735,154		IRR	26.20%
XIRR	111.94%		MIRR	20.02%
Max cash out	-10,100,000		Value	11,200,000

The Valuation Results and date is auto computed into your Development

Code	Activity	Totals	% Absorbed
1	Land	-3,000,000	29.70%
2	Town Planning	-500,000	4.95%
3	Services - Civils	0	0.00%
4	Accounting	0	0.00%
5	Architect	-200,000	1.98%
6	Surveyor	-300,000	2.97%
7	Engineer	0	0.00%
8	Construction	-5,500,000	54.46%
9	External walling	-600,000	5.94%
10	Landscaping	0	0.00%
11	Holding Costs - funding	0	0.00%
12	Agent fees	0	0.00%
13	Transfer fees	0	0.00%
14	Other Expense	0	0.00%

Completion Date	2022-09-30
Funders %	8%
Gross Monthly Rental	100,000
Fixed Monthly Costs	12,000
Maintenance Provision	4,000
Net Monthly Income	84,000
Net Annual Income	1,008,000
Annual rental esc %	5%
Estimated Cape Rate	9%
Value based on Cap Rate	11,200,000
Analytical Data and Values	
Deposit %	0%
Funding amount	11,200,000

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17	Sales Income	11,800,000	
18	Value - Rental Stock M18	11,200,000	
	Total Cost Only	**-10,100,000**	**100%**
	Total Result	**1,700,000**	

Developers Analysis and Profitability Calculations:

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Type:
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Cash Flow 10 Year Model

Periods	Cash In	Cash Out	Cash Flow	Balance	
Start Period 0		0	0	0	
1	1,008,000	1,630,643	-622,643	-622,643	11,648,000
2	1,058,400	1,630,643	-572,243	-1,194,886	12,113,920
3	1,111,320	1,630,643	-519,323	-1,714,209	12,598,477
4	1,166,886	1,630,643	-463,757	-2,177,965	13,102,416
5	1,225,230	1,630,643	-405,413	-2,583,378	13,626,513
6	1,286,492	1,630,643	-344,151	-2,927,529	14,171,573
7	1,350,816	1,630,643	-279,826	-3,207,356	14,738,436
8	1,418,357	1,630,643	-212,286	-3,419,641	15,327,973
9	1,489,275	1,630,643	-141,368	-3,561,009	15,941,092
10	1,563,739	1,630,643	16,511,832	-3,627,913	16,578,736