Understanding the Development Proforma

ULI Leadership Session
January 30, 2019
Stephen Diamond, Diamond Corp.
Diamond Corp.

Development company managing 4 private equity funds with over $650M in commitments

Currently have over 100 acres of land in various development stages in the GTA

Over 20 M s.f. in gross floor area in a mix of uses at full development
An Inspiring Structure

The Eiffel Tower
Paris, France
Criticisms of the Eiffel Tower

“...a useless, monstrous tower which will deface and dishonour the city”

“...a mast of iron gymnasium apparatus, incomplete, confused and deformed"
Gustav Eiffel’s response to critics

“The tower will have its own beauty...the tower will be the highest building men have ever raised. It is one of the most mistaken notions, although widely held even by artists, that a tall edifice will crush the surrounding buildings”
Investment Options

- Canadian Bonds 5.23 %
- U.S. High Yield Bond 9.49 %
- Canadian REIT 6.94 %
- Global Equity Funds 6.63 %
- Gold 10.01 %
Choosing to Invest in Real Estate – Why Take the Risk?

• 5 to 10 year return depending on approvals required
• Constant changes to policy framework
• Need banks and others to invest
• Financial Guarantees
Financial Requirements
Risk Return Proposition

• Financial community requires minimum level of return

• More time, more risk requires a higher return

• Generally developers need to demonstrate 12% return on revenue as a test for project feasibility
The Development Proforma

- Tool for developers to inform investment decisions
- Tool for financial institutions to inform lending decisions
- Checked by financial analysts
- Assumptions, assumptions and more assumptions
Four Factors Determine Development Feasibility

- Public Policy
- Market Feasibility
- Capital
- Land

Reasonable land acquisition costs
Support from market demand for product/Economic fundamentals
Access to financial resources
Development Can Occur
Public policy support
Financing?

Before the project proceeds the Developer has to resolve financing

• Equity of 20 to 40 %
• Financing Costs
• Personal guarantees
Government Policy Impacts

• Proforma Assumptions – public policy can change the structure of investment decisions
• The investment decision may no longer be viable
• Uncertain policy impacts leads to higher risk

Examples of Government Policies Affecting the Proforma

• Federal policy: mortgage lending rules and mortgage insurance
• Provincial policy: inclusionary zoning; heritage; financial tools; planning act reforms
• Municipal policy – development charges; parkland fees; section 37; application fees; dewatering fees; guidelines
WHY RISK IT?

In the context of the risk associated with public policy

Invest in Bonds instead…….
Where do Increases in fees/charges/development costs get absorbed?

• Common misconception that fees and charges go to land value and would not affect development feasibility

• Assumes that land value can go below the point where it can’t be sold

• In reality land value influences the development opportunity

• And, in the case of income producing property, redevelopment may not be an option
North District
Scarborough District
A Collaborative Approach

• The Official Plan that city building is a partnership between developers and the City – Our company believes in this approach.

• Developers need to create economic return to undertake development

• Otherwise investment capital goes elsewhere in Canada or outside the country; opportunity cost to the economy is significant
A Balanced Framework to Meet Objectives

• Carrot versus Stick approach to achieve public objectives – treading carefully to balance public objectives that often compete
• Profit drives creativity to create great projects
• Acceptance of creative thinking by city planners
“Every great city has to have the ability to astonish and surprise” - Allan Gotlieb
The Well

Toronto Urban Design Panel “The Well is an example of enlightened urbanism”
The Well Public Realm
The Well Innovative Offices
5 St. Joseph
Moving Forward

- Public and private sector working together in light of the economic reality of development to create great City building opportunities
Thank you