

# Understanding the Development Proforma

## ULI Leadership Session

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# 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



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Blue Diamond



210 Simcoe



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# An Inspiring Structure



The Eiffel Tower  
Paris, France



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# 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”



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# 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 %



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# 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

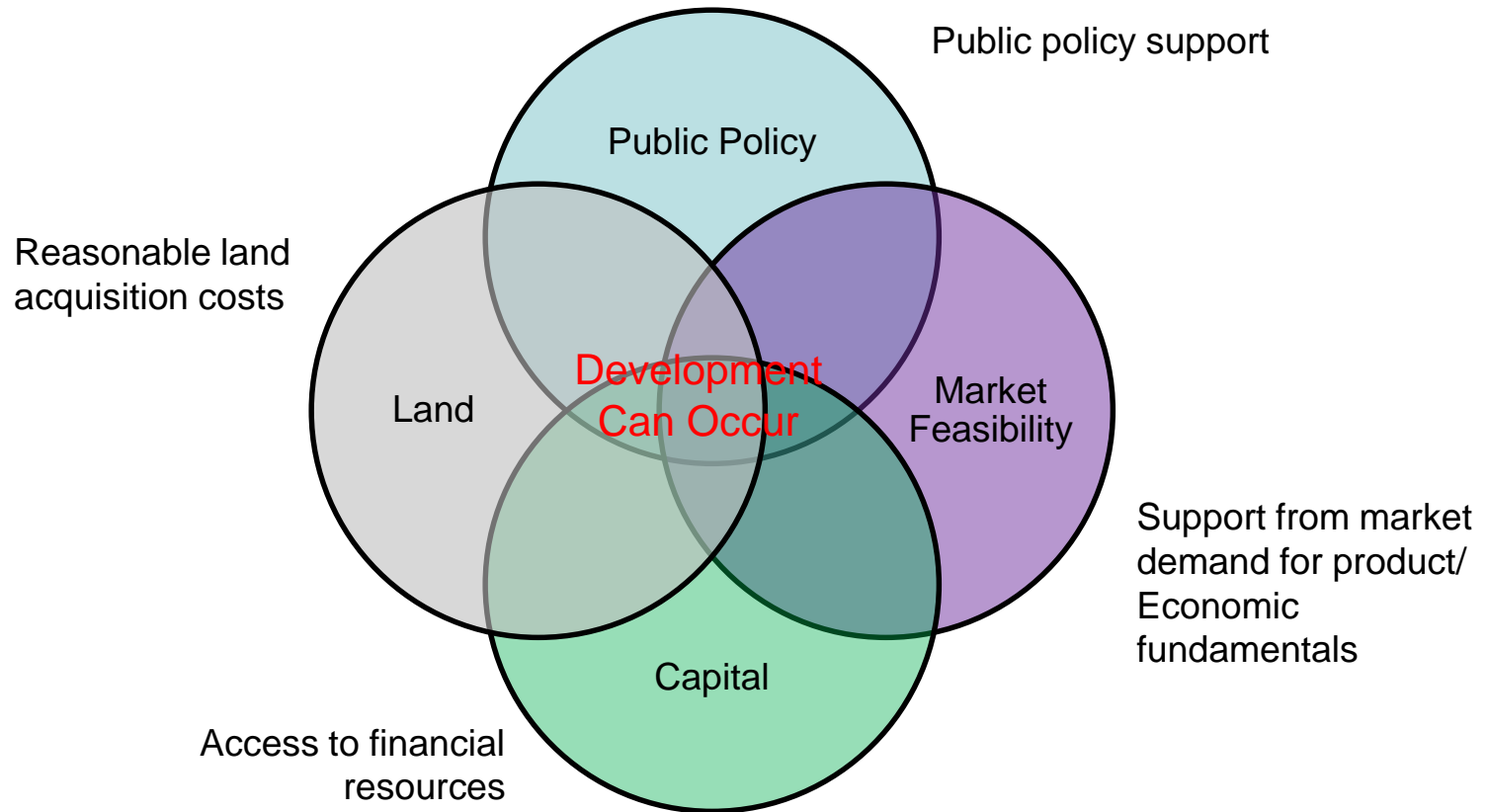


# The Development Proforma

- 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



# 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.....



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# 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

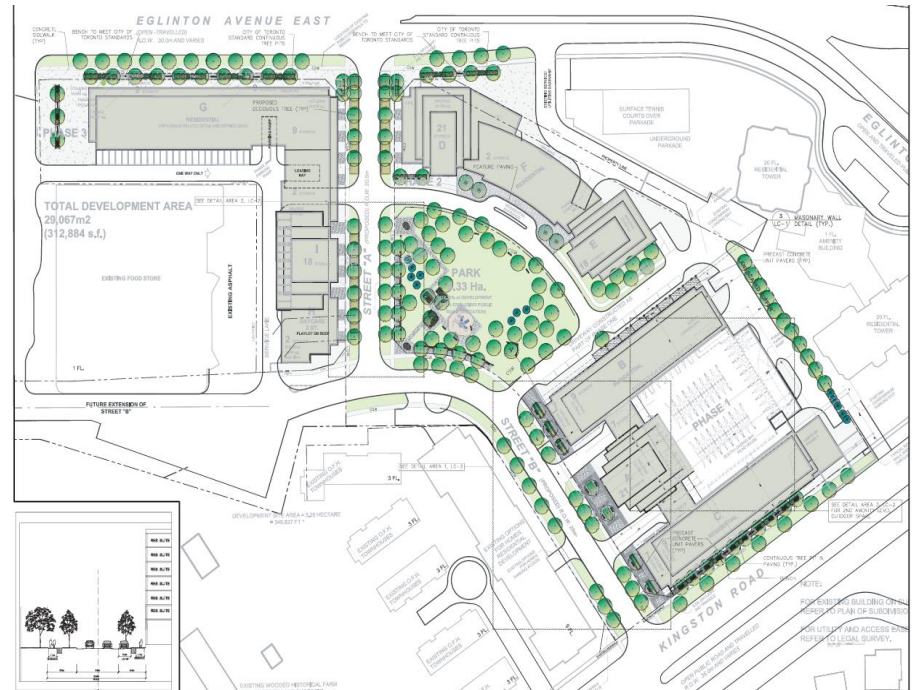


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# Scarborough District



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# 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



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# The Well



Toronto Urban Design Panel “The Well is an example of enlightened urbanism”

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# The Well Public Realm



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# The Well Innovative Offices



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# 5 St. Joseph



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# Moving Forward

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



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Thank you

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