INTRODUCTION TO THE CALCULATOR

The following user guidelines have been designed to accompany the Boarding Accommodation Calculator. The guidelines outline the benefits of using the Calculator and provide a step by step guide to how as to how to enter data into the input sheet and how to interpret results.

1 WHAT IS THE BOARDING ACCOMMODATION CALCULATOR?

The Boarding Accommodation Calculator tool assists existing and prospective boarding house owners/managers in NSW gain a better understanding of issues affecting the viability of a boarding house business. It tests different development scenarios and analyses their economic implications.

The Calculator is a tool that may be used to:

• model the viability of existing boarding house businesses;
• model the viability of existing boarding house businesses and any proposed upgrades to buildings / variations to business costs; and
• model the viability of developing new boarding houses.

The Calculator is an Excel based program that allows the user to ‘input’ development related data. It then ‘calculates’ the development yield of a boarding accommodation businesses, extension or development. By varying costs and other factors such as revenue and loans, the effect on development yield and business profitability can be clearly understood and quantified.

It is important to note that the Calculator has been created as a simple tool to assist owners/ managers identify mechanisms to improve business profitability and thereby to retain boarding accommodation businesses. It is the property of Housing NSW and its use by owners/managers does not imply in any way that Housing NSW endorses its outcomes.

The Calculator has not been designed as a detailed tool to guide development feasibility or be used to assess the more complex and detailed feasibility analysis required by Part 3 – Retention of existing affordable rental housing, contained in State Environmental Planning Policy (Affordable Rental Housing), 2009. To this extent the Department of Planning does not endorse the use of the Calculator.
2 WHY CALCULATE DEVELOPMENT YIELD?

After extensive discussions with industry representatives it was concluded that development yield (rather than Discounted Cash Flow and Internal Rate of Return) was the method of benchmarking investment used by the industry. Consequently to simplify the Calculator and to ensure it is targeted to its users, it has been designed as a calculator of profit and yield.

3 WHAT INPUTS CAN THE CALCULATOR TEST?

The Boarding House Calculator has been designed to vary matters such as land tax, stamp duty, legal costs, the number of rooms (rent) and other income streams (i.e. grants), capital invested and operation and maintenance costs. The effect of varying these factors and their financial inter-relationship or knock on effects are assessed by the Calculator.

As an example an owner/manager may utilise the model to test the impact of lowering tariffs by $10.00 per room per week to allow the business to be eligible for land tax exemptions. By actually reducing tariffs and not having to pay land tax, the Calculator may be used to determine whether overall profitability is improved or otherwise. The Calculator allows for comparisons between different business and development options. A comparison of yields also allows for benchmarking against other forms of investment.

4 USEFUL DEFINITIONS

The following list provides definitions of the terms that are used within the Calculator and the user guidelines.

Definitions of Terms used by the Boarding House Calculator

Passing Yield - the rate of return that the current rent yields, expressed as a percent of the land purchase price.

Vacancy - the percentage by which total income should be reduced as an allowance for some of the rooms in the boarding house not generating revenue.

Contingency - an addition to the total Capital Upgrade Cost which is incorporated to account for any unforeseen costs associated with the upgrade.

Capital Upgrade - the actual cost involved in upgrading of the existing facilities.
Operating Costs - costs associated with the operation of a boarding house. These costs are ongoing costs. It should be the annual cost for each variable which is entered into the Calculator.

Equity - the amount of the owner’s capital that is used in the project. No financing costs are associated with the equity input.

Capitalised Net Income - the value of the property calculated through capitalization of the net rental.

Development Margin - the difference between net income and total costs, expressed as a percentage.

Return on Equity - the development margin expressed as a percentage of the amount of equity injected into the project. Thus given a rate of return on the equity invested.

5 HOW TO USE THE CALCULATOR

The following section of the user guidelines takes a step by step approach to show how to use the Calculator. It breaks down the guidelines into the 6 different sections of the input sheet explaining the relevant data to enter into each section of the sheet and how the Calculator’s results can be interpreted based on the results of section 7. An illustrative example of inputs will be provided for each section.

Never ‘cut’ or ‘copy’ or ‘paste’ into any section of the calculator. Pasting information into the calculator this will corrupt formulae built into the model.

6 SECTION 1: INTRODUCTION

Section 1 Introduction should be used to record the descriptive details of the property being modelled, such as the boarding house name, address and suburb. Other information like the description of the particular feasibility scenario being tested, and whom the report is being prepared by and for, is useful in order to keep a clear record of what each one is for, the purpose of comparison and future reference.

Information is entered only in cells where text is coloured blue. Cells with black text have been ‘locked’ so that they cannot be altered. They either contain a generic description or an important formula integral to the functionality of the Calculator.

7 SECTION 2: ACQUISITION
As highlighted above, information should only be entered into those cells which have blue text. In Section 2 Acquisition, the first input (Row 2.01) should be the property purchase price. From this figure the Calculator will automatically calculate the applicable stamp duty rate based on NSW rates as of July 2010. If Stamp Duty is not payable then “no” should be selected (Row 2.02).

Both legal costs and other costs related to the purchase of the land need to be entered into this section (Rows 2.03 and 2.04). Using these values and the other acquisition costs entered above, the Calculator will calculate a total acquisition cost (Row 2.05). The net annual income upon purchase should be entered into the model (Row 2.06). The Calculator will then calculate the passing yield (Row 2.07). This is the Net Annual Income expressed as a percentage of the purchase price.

8 SECTION 3: REVENUE

Section 3 Revenue should be used to input the potential future income receivable upon completion of the works on the property. The revenue section of the Calculator gives the opportunity to enter up to 12 revenue sources for the property. For each source of revenue the Calculator requires the potential weekly rent to be inputted as well as the number of rooms for which that weekly rental is applicable. The final column then calculates the total potential income received.

Although not mandatory, a vacancy rate (expressed as a percentage) for the rooms should be inputted into row 3.14. The nominated vacancy rate will be subtracted from the total potential revenue receivable to give a total revenue figure. It is this figure (Row 3.15) which will then be used in the final section (section 7) of the Calculator analysis.

9 SECTION 4: CAPITAL COST UPGRADE & DEVELOPMENT

Section 4 Capital Cost Upgrade & Development Description should account for the upgrade costs of the works being undertaken on the property. Fifteen lines have been provided for the input of costs incurred in the upgrade of the existing facilities. There are no restrictions to the nature of the costs nominated by the user. For each cost incurred the Calculator requires the number of units and the cost per unit to be inputted. The figures are multiplied to calculate the value. Values are then summed to give a total cost of the upgrade (Row 4.17). Within this section a contingency figure can also be built-in. The contingency figure will be calculated as a percentage of total costs and included within total costs. The contingency
figure is included to account for any unforeseen costs which might occur as a result of undertaking the works detailed in the model. It is considered good practice to include a contingency as a percentage of construction costs.

10 SECTION 5: OPERATING COSTS

Section 5 Operating Costs deals with the ongoing operating costs involved with the project. In order to accurately calculate these costs each must be entered as an annual amount. The first input required within this section is the unimproved value of the land for land tax purposes. This figure should represent the value only of the land involved in the project, in other words the value of the property minus the value of any building improvements on the land. By opting for Yes (in 5.02) the Calculator will calculate the land tax liability on an annual basis. The user may opt for No if a land tax exemption applies.

Other costs which should be considered within this section are Insurances, Repairs and Maintenance, Administration fees, Council rates, Water rates, Staff Wages and Owner/Manager Salary all of which are entered as an annual amount. For each inputted cost the Calculator gives a percentage of total operating costs, a percentage of revenue and a dollar amount per room without any additional data inputs.

11 SECTION 6: FINANCE

Section 6 deals with the costs involved in financing the project. The first input (Row 6.01) relates to the amount of equity being injected into the project. The following two rows (Row 6.02) are automatically populated from inputs made elsewhere in the model. The next input relates to the finance borrowed to undertake the construction work. Costs associated with the loan are then entered (Rows 6.03, 604 & 6.06). These inputs calculate the total construction loan interest figure (Row 6.07) and the total cost of the loan (Row 6.08).

The Calculator then uses the amount borrowed for construction, its associated costs and the remaining amount needed to acquire the land to give the total funding required post works (6.09). The input of an Effective Mortgage Rate (inclusive of Line Fees) will then calculate total interest on funds borrowed which can then be used in the Net Yield Scenario Analysis.

The Calculator gives the user the option of incorporating the Boarding House Financial Assistance Program grant (Row 6.11) as well as the option of incorporating National Rental Affordability Scheme subsidies (Row 6.12). Note
that the Boarding House Financial Assistance Program grant is payable in equal instalments of $2,000 per room per annum over five years. The user can exclude these subsidies to test a scenario without state assistance, or include each of the subsidy options to test outcomes with different packages of state assistance.

12 SECTION 7: NET YIELD SCENARIO ANALYSIS

Section 7 Net yield scenario analysis is the final section of the Calculator’s input sheet. It summarises how the project performs financially. It requires only two additional inputs, both of which relate to the capitalization rates applicable to the project.

Net Income before Finance (Row 7.01) relates to the total income minus the operating costs (with or without NRAS). This is the potential income the owner of the property could expect after the upgrade works have been completed. The Net Income is then capitalised resulting in an end sale value. In order to complete this calculation the capitalization rate will need be inputted (Row 7.02).

This section sums all of the costs of the upgrade (Row 7.03).

The Calculator provides a development margin in Row 7.04. This is done through the subtraction of the total costs from the capitalized end sale values. It should be remembered that this development margin includes Land Tax (if selected as applicable) which may not be applicable to all types of boarding house accommodation.

The net income (either including or excluding land tax (Row 7.05) is then capitalized (Row 7.06) using the rate inputted on the same line. A development margin (with or without land tax) is detailed in this section (Row 7.07). The relevant yields before and after the Boarding House Financial Assistance grant are shown on the right hand side of this table so that the effect that the grant has on a boarding house project can be seen.

The final project performance calculations which are undertaken in this section relate to Yield on Equity. The return on equity is shown (Row 7.10). This figure has taken the Net Income after Interest (Row 7.08) and expressed it as a percent of equity invested (Row 7.09). In addition to return on equity invested, the Calculator gives a return on equity in year 10, assuming a percentage growth in income that can inputted onto the same line (Row 7.11).
13 STAMP DUTY & LAND TAX SHEET

The Stamp Duty & Land Tax Sheet requires no data inputs. The Calculator automatically applies the rates detailed in this sheet to the Land Purchase price, this gives the Land Tax and the Stamp Duty rates applicable to the project. If a change to the rates occurs then the onus is on the user of the Calculator to keep the rates updated. Once updated, rates will be automatically applied to the Calculator.

14 YOUR SHEET

A blank excel spreadsheet has been provided within the model for calculations external to the calculator. This sheet has all the functionality of a standard Excel worksheet and can be linked to the main Calculator.

DISCLAIMER

This is a simple Calculator to estimate the viability of a simple boarding house business or development project. Hill PDA and Housing NSW in no way guarantee or can be held responsible for any investment outcomes displayed as a result of using this Calculator. Seek professional advice before making any investment decisions or use specialised software such as the enterprise version of the Estate Master DF software (www.estatemaster.net) for a more accurate and detailed analysis.