

Determining How Much Your Organization Can Borrow

This worksheet is designed to assist organizations with calculating how much debt they can afford for a real estate project.

Once your organization has decided to undertake a real estate project, and you have looked at potential capital funding sources, the next step is to determine how much your organization could afford to borrow to finance the rest of your project if there are not sufficient capital sources or if a capital campaign will take too long. Whether you are taking out a loan for the purchase of a new building or to make renovations to your existing facility, this calculation is critical in assessing the type and size of project your organization can afford.

Budgeting for a Real Estate Project

Determining how much your organization can borrow is only one piece of paying for a real estate project. Your organization must also have equity to contribute to the financing package in the form of a down payment. Assuming your organization has the required equity contribution to get a loan, the following exercise will help determine how much your organization can borrow for a project.

Step 1:

What does your organization spend now for occupancy costs?

Isolate what you spend annually on utilities and maintenance from other occupancy costs such as rent to determine what is available for loan payments.

Example:

\$110,000 Gross Occupancy Costs
– 20,000 Utilities & Maintenance
\$ 90,000 Net Occupancy Expenses

Occupancy costs—It is good to target at 10-15% of your organization's total operating budget.

Gross occupancy costs—include rent, utilities, mortgage payments, repairs, maintenance, general building costs and sometimes property taxes.

Step 2:

How much money does your organization have available to repay a real estate loan annually?

Subtract your Annual Expenses (not including the Net Occupancy amount in step #1) from Annual Revenues = _____ (a)

Example: Revenues—Expenses (not including net occupancy): \$1,100,000 – \$1,004,663 = \$95,337 (a)

These worksheets are meant to provide introductory information and are not to replace the assistance of hired consultants and professionals.

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Content originally authored by IFF, a lender and real estate consultant serving nonprofits in the Midwestern United States. This worksheet has been modified by Vancity to reflect the context of its service area, and general lending guidelines. The original IFF version can be found at www.iff.org/technical-assistance.

Step 3:
What portion of this amount can reasonably be used for loan payments annually (debt coverage)?

Divide (a) by 1.2 = _____(b)

Debt coverage shows how much cash you have remaining to pay your debt after paying your other expenses—building in a cushion in case your revenues come in less than projected. Typically lenders want to see that you have around 1.2 times the amount of your annual property debt payment.

Example: \$95,337/1.2 = \$79,448 (b)

Step 4:
What payments could you afford per month?

Divide (b) by 12 months per year: (b)/12 = _____ (c)

Example: \$79,448/12 = \$6,621/month (c)

Step 5:
What could that monthly payment afford you in terms of a total loan amount?

That depends on the *interest rate* and the *amortization* (total number of years over which you have to repay the loan). Using a financial calculator or spreadsheet program formula, solve for the present value of the loan: use (c) as your payment and vary the rate and term depending on your options.

Example: If your organization can afford \$6,621 (c) in monthly property debt payments, then depending on the terms of your loan, you could afford to borrow the following principal amounts (**NOTE: figures are rounded and approximate – consult with your Banker for more exact calculation**):

Loan Amount

Interest Rate	Amortization in Years		
	15	20	25
5%	\$835,000	\$1,000,000	\$1,130,000
6%	\$780,000	\$910,000	\$1,025,000
7%	\$735,000	\$850,000	\$935,000

As your organization seeks debt financing, aim for the terms and rates that make the most financial sense for your organization in the short and long term. Interest rates are not the only factor to consider: the longer the term and amortization, the lower your monthly mortgage payments.

As you can see, the amortization of your loan affects the total amount of debt you can afford to borrow more than the interest rate does.

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