**MIT Center for Construction Management**
**MIT Center for Real Estate**
**Course 1.961, "E-Commerce and the Internet in Real Estate and Construction"**
**John D. Macomber** **May 7, 2001**

**Worksheets to Illustrate Economics of Project Cost Savings**
**and Impact on Strategies to Scale Up a Company**

These worksheets are for illustration only and do NOT represent the statements of any real company.

## *Scenario 2 With Cost Savings*

### Pro Forma Single Project Costs for Developer

| | | | | | |
|---|---|---|---|---|---|
| Site Acquisition | | 3,500,000 | | | 20.7% |
| Permits, Legal, other | | 2,500,000 | | | 14.8% |
| Construction Period Interest | 10.00% | | | | |
| months | 14 | 904,167 | | | 5.3% |
| Design Fees | | 500,000 | | | 3.0% |
| Construction Costs | | | | | |
| General Conditions | | | 570,000 | 6.0% | |
| Direct Costs | | | | | |
| Material | | | 4,275,000 | 45.0% | |
| Labor | | | 4,275,000 | 45.0% | |
| Contractor's Job Profit | | | 380,000 | 4.0% | |
| Total Construction Cost | | 9,500,000 | | 100.0% | 56.2% |
| Total Project Cost | | 16,904,167 | | | 100.0% |
| If Annual Gross Rent = | | 2,000,000 | | | |
| Then Ann'l Cash/Cash Return (unleveraged) = | | 11.83% | | | |

### Pro Forma Contractor Income Statement

| | | |
|---|---|---|
| Assume quantity of projects like this: | | 10 |
| Duration of projects, from above, months: | | 14 |
| Revenue | | 81,428,571 |
| Cost of Work | | 78,171,429 |
| Gross Income | | 3,257,143 |
| Sales, General, Administration | 2.0% | 1,628,571 |
| Net Income Before Tax | | 1,628,571 |

Note savings in many areas. Do you think that the savings would be apportioned as indicated here, or in some other fashion?
What prevents these benefical savings from occurring?

### Pro Forma Contractor Balance Sheet

| | | |
|---|---|---|
| Assume Revenue Above | | 81,428,571 |
| Assume Bonding Required | 5.00% | 4,071,429 |
| Cash and Accounts Payable | | 9,228,571 |
| Long Term Assets | | 1,628,571 |
| Total Assets | | 10,857,143 |
| Accounts Receivable | | 6,785,714 |
| Net Worth | | 4,071,429 |
| Total Liabilities and Net Worth | | 10,857,143 |

l

gs