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# **Society of Graduate and Professional Students: *Feasibility Studies***

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# Executive Summary

The Society of Graduate and Professional Students (SGPS) hired Queen’s Business Consulting (QBC) to investigate the feasibility for the SGPS to create either an SGPS cafe or a Housing Authority for its members. The project spawned from a desire by the SGPS to invest a currently idle pool of capital into a venture that would generate financial returns while satisfying the SGPS’s mandate to service its members. QBC evaluated these two projects against a set of key decision criteria that measures both the profitability and the serviceability of the two projects.

Ultimately, the analysis that QBC has conducted suggests that it would not be in the SGPS’s best interests to pursue either project using their current approach – investing without partnership or third-party assistance. This recommendation stems from quantitative and qualitative findings that were gathered from primary and secondary research via surveys and in-person interviews. All the documentation, survey results, and financial models are provided in this report package for the SGPS.

The cafe project does not appear to be financially lucrative. Income is highly volatile and potential for growth is very limited. The serviceability aspects of the cafe tend to satisfy only the more trivial goals that the SGPS has set out. Thus, QBC suggests that the cafe would not be a good return for the SGPS’s money – either monetarily or qualitatively.

Setting up a Housing Authority comes with its own issues of trading off profitability for serviceability. Though the income that the Housing Authority could generate would be steady, predictable, and growing, this initiative is limited in terms of how many SGPS members it can serve in the near future. These factors, along with the notion that running a Housing Authority is outside SGPS’s general expertise, seem to render the current Housing Authority setup as a less than desirable independent venture.

If the SGPS still wishes to proceed with one of the options, then QBC recommends the Housing Authority option. This is based off of a weighted comparison of the criteria and how well they apply to one option over the other. The results indicate that the Housing Authority would be clearly a better choice financially while also being slightly better in terms of serviceability.

Financial Analysis		Serviceability Analysis	
Cafe Total	0.5	Cafe Total	10
Housing Total	20.5	Housing Total	14.5

Despite this analysis, QBC has identified a few further considerations that SGPS should examine. Moving forward, QBC’s primary recommendation is for SGPS to look into a housing partnership with an existing housing initiative in Kingston. This has many potential benefits for the SGPS while mitigating some of the challenges that it would have faced had it initiated the Housing Authority on its own.

It has been a pleasure assisting the SGPS with its feasibility analyses.

Sincerely,

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Queen's Business Consulting

December 8, 2009

# **1. Introduction**

## **1.1 Basis for Project**

The SGPS exists to defend and expand the rights of graduate and professional students at Queen's University. It also lobbies the Queen's administration and the provincial and federal governments on issues crucial to the well-being and success of graduate and professional students. To further their mandate, the SGPS has consulted with QBC to assess two potential investments and see whether either of them can successfully meet those previously identified member needs. Those needs are reiterated below under 'Project Goal'.

The SGPS has financial reserves of \$250,000 and is looking to invest these reserves in a worthwhile and financially sound manner. It is currently considering investing in one of two options: establishing a housing authority or purchasing an on-campus space to use as a cafe for graduate and professional students. QBC was retained by the SGPS to conduct a feasibility study and analysis of both options. The basis for assessing the relative attractiveness of these two options would be based on the following two key criteria:

- Financial Criteria; and,
- Serviceability Criteria.

These criteria are further explained in the next section entitled 'Key Decision Criteria'. Other issues to consider are legal constraints and risks, discussed in the 'Legal Issues' section. Furthermore, this feasibility study will build upon the previous strategic report that QBC completed for the SGPS in 2007 and upon the surveys that the SGPS has done on a bi-annual basis since 2002 (except for 2006).

## **1.2 Project Goal**

QBC will investigate the feasibility of the SGPS undertaking the following ventures:

1. A Housing Authority that provides affordable, high-quality rental housing to SGPS members. The term 'Housing Authority' is meant to identify a corporation that exists for this purpose and accomplishes the aforementioned goals by purchasing real estate and leasing it out to tenants; and,
2. Owning an on-campus establishment to manage and operate a cafe that caters primarily to graduate and professional students.

## 1.3 Approach

To arrive at accurate and meaningful recommendations, QBC followed the methodology below (as outlined in our proposal on October 6, 2009):

1. Establish key decision criteria;
2. Conduct secondary research;
  - a. Best practices; and,
    - i. Comparable universities' cafes and housing authorities; and,
    - ii. Public cafes and housing authorities
  - b. Legal analysis
    - i. Queen's Business Law Clinic
3. Conduct primary research; and,
  - a. Survey SGPS membership; and,
  - b. Interview other cafes and housing initiatives
4. Final analysis and recommendations

It is important to note that this is not the only way to assess the profitability and serviceability of both ventures. Given the time frame for this project, many assumptions had to be made about future variables that are not set in stone. One of the primary limitations of this analysis is that QBC is making projections of revenues and costs that will inevitably differ from the actual revenues and costs should the SGPS pursue either of the investments. Please refer to Exhibits AK and AL for a full description of the assumptions that were made.

## **2. Key Decision Criteria**

The way that QBC has chosen to assess the feasibility of both the Housing Authority and the SGPS Cafe is to make sure that the SGPS has clearly defined a set of criteria that is applicable to both projects. This provides a structured way of comparing the two projects. Below are the criteria that QBC and several members of the SGPS Executive established to guide this project. They are split into two major sections: financial criteria (quantitative) and serviceability criteria (qualitative). The analysis comparing each venture using these different criteria is outlined in the sections 'Financial Analysis' and 'Serviceability Analysis'.

### **2.1 Financial Criteria**

- Short-Term Profit
- Variance in Expected Profit
- Start-Up Costs
- Break-even Analysis
- Return on Investment
- Cash Flow
- Growth Potential
- Debt Ratio

### **2.2 Serviceability Criteria**

- Number of additional SGPS members impacted
- Amount of the impact
  - Dollar value
  - Frequency
  - Time spent
- Quality of options
- Quality of service/product
- SGPS brand awareness
  - Existing SGPS members
  - Non-SGPS members
- Networking and community building
- Convenience
  - Time saved
- Employment opportunities
  - Dollar value
- Money saved

## **3. Financial Analysis**

Financial feasibility, including profitability, was one of the two major criteria that QBC decided to use in determining and comparing the feasibility of both the SGPS cafe and the Housing Authority. To create a good comparative analysis, QBC calculated all of the financial metrics outlined in the key decision criteria for both the SGPS cafe and the Housing Authority, where applicable. Those criteria constitute the sub-headings in this section for both the SGPS Cafe and the Housing Authority.

### ***Key Inputs:***

In conducting the financial analysis for the SGPS cafe, QBC contacted Queen's on-campus, student-run cafes that would have similar operations to that of the SGPS. QBC conducted interviews with business managers from these establishments and acquired financial data for past business years, mainly in the form of income statements. Because of disclosure requirements, specific financial data can only be provided for Common Ground, which was one of the contacted cafes. However, financial data from all contacted organizations have been used in conducting the analysis. Furthermore, revenues and costs were calculated on the assumption that the SGPS Cafe would be run in the JDUC, where Common Ground used to operate.

In conducting the financial analysis for the Housing Authority, QBC contacted Queen's Community Housing, Graduate Housing Authorities at other schools, local landlords, property owners, and the Student Housing Cooperative (formerly known as Sci' 44 Co-op). All of the information gathered from these contacts was used to perform the financial analysis. However, the Student Housing Cooperative was by far the most valuable source of information.

Detailed financial statements, projections, and assumptions are provided in the exhibits at the end of this report. Summaries of these numbers, where applicable, can be found in the body of this report. Furthermore, financial Excel models for both the SGPS cafe and the Housing Authority will be provided as soft copies in the final report package. These financial models are dynamic in nature, where final projections and outputs are calculated on the basis of certain inputs that the SGPS can change. This is to ensure flexibility of these projections down the road as the business environment changes.

### **3.1 Short-term Profit**

#### ***Cafe:***

Profits were projected using financial data gathered from current on-campus student-run cafes, which include Common Ground (Exhibits A – C). Revenue and cost categories were calculated in two main ways: as fixed numbers or as percentages of sales revenue. The method depended on the type of cost (e.g. COGS was variable, rent was fixed). QBC also used a weighted average scheme in projecting these numbers. The SGPS could be more similar to one cafe for one cost but more similar to a different cafe

for another cost. For example, the rent cost for the SGPS would be most similar to Common Ground’s rent cost because it would be allocated in the same way – as a shared JDUC space cost.

It’s important to be more specific in how revenues were projected, given their influence on costs that are variable to sales. In speaking with Leslie Yun from the AMS, QBC discovered that the size of the AMS population was roughly 14,200 and the SGPS population was roughly 4,000. Based on anecdotal discussions with the SGPS executive, QBC believes that the SGPS would have to target the non-SGPS population as well and not just SGPS members, in order to achieve a market size that would be profitable. While promotions could be geared toward SGPS members, such as member discounts, the SGPS cafe would have to be open to all students. In this analysis, no specific discounts for SGPS members were used to estimate and project revenues and costs.

With the addition of new food and drink establishments in the recently opened Queen’s Centre, the market appears to be increasingly saturated. While the SGPS would enjoy the luxury of a good location on campus in the JDUC, the SGPS cafe would be hard-pressed to keep the same revenues that Common Ground had prior to the opening of the Queen’s Centre. Thus, in order to project revenues, we took an equal weighting of Common Ground’s current sales revenues and the size of a similarly run cafe at about 1/3 the size. Since revenue is a big factor, these weights can be modified in the dynamic financial model. As well, a specific number for projected revenues can be entered in to bypass the weighted averages.

Expected profits have been calculated for three years and are provided below in five different scenarios ranging from Very Pessimistic to Very Optimistic. The scenarios provided below in figure 1 are the expected profits given an increase/decrease in revenues of 15% and 30%. These scenarios can also be modified in the dynamic financial Excel model (Exhibits D – G).

**Figure 1: Expected Short-Term Profits for the SGPS Cafe under Various Scenarios**

<i>In \$CAD</i>	Very Pessimistic	Slightly Pessimistic	Expected	Slightly Optimistic	Very Optimistic
<b>Year 1</b>	-\$56,959	-\$49,907	<b>-\$42,855</b>	-\$35,803	-\$28,751
<b>Year 2</b>	-\$17,467	-\$6,678	<b>\$4,110</b>	\$14,899	\$25,688
<b>Year 3</b>	-\$14,715	-\$2,867	<b>\$8,980</b>	\$20,828	\$32,675

According to QBC’s projections, the expected profit (loss) would be roughly -\$43,000 in the first year of operations, \$4,000 in Year 2, and \$9,000 in Year 3. The respective numbers for net income as a percentage of revenue are -8.1%, 0.8%, and 1.7%. Even in the very optimistic scenario, expected profits in the first year would still be negative due to large initial start-up costs. Considering the size of this investment, the short-term and long-term profits to be gained are less than desirable. This is supported by the relatively limited upper range of projected net income, which would entail a very optimistic 30% increase in projected revenues.

It is important to note that profits for on-campus cafes in the past have been influenced by the amount of grants they receive and the fundraising they do. The projected income calculated for the SGPS cafe

does not include grants and fundraising because the purpose of this report is to provide stable and recurring income numbers. With a data set of eight business years for cafes that QBC analyzed, there were five years in which a given cafe produced a net positive bottom line. Furthermore, three of the eight years included over \$2,000 of revenue from grants and fundraising. All three of these years led to positive net incomes.

**Housing Authority:**

The total gains of running the Housing Authority can be broken down into three parts:

**Gains from operations and cash flows:** This is the net change in cash position as a result of operations. The short-term profitability of the Housing Authority heavily depends on net income from operations as it is the only source of cash income. For this reason, it is important to show these net cash flows in the short-term profit section as well. Shown in figure 2, this source of income is forecasted to generate roughly \$3,000 of annual net cash income under an expected hypothetical scenario (Exhibit H).

**Figure 2: Expected Cash Gains from Operations for the Housing Authority under Various Scenarios**

In \$CAD	Pessimistic	Expected	Optimistic
Year 1	-\$17,164	\$3,184	\$19,806

**Mortgage principal paid off:** This reflects the transfer of cash from liabilities to equity on the balance sheet. It shows that the SGPS now owns these assets and they no longer have to be paid back. This can be thought of as a non-cash item, but one that should be considered nonetheless as it continuously and increasingly adds value to the investment. Although there are no contributions to the net cash position and short-term profitability, it is a deciding factor in assessing the investment’s attractiveness. This source of income is expected to deduct roughly \$12,000 from the mortgage principle in the first year. This contribution will increase annually as there is less principal remaining and a smaller portion of the mortgage payments will go toward covering interest expenses. To calculate the value of these gains, QBC has created a mortgage calculator for SGPS to use in the future. This is provided in the financial Excel model (Exhibit I).

**Capital gains on property value:** This is the appreciation/depreciation of the property. It is possible for the property value to increase or decrease, but this is hard to determine in the long-run. Since a capital gain on property value is a long-term gain and a non-cash item, it will be disregarded in this section of the analysis.

The cash income is expected to increase very slightly in nominal terms and remain constant in real terms over the years. However, the non-cash portion slowly, but steadily, grows over the years as interest expenses shrink. The projected changes in net income, based on the expected hypothetical scenario, over the next five years can be seen below in figure 3 (and in Exhibit J).

**Figure 3: Expected Net Income for the Housing Authority for Year 1 to Year 5**

<i>In \$CAD</i>	Year 1	Year 2	Year 3	Year 4	Year 5
<b>Net Income</b>	\$11,313	\$11,870	\$12,453	\$13,063	\$13,701

One factor that can affect short-term profitability is investment in efficiencies. This includes investing in insulation, energy-efficient light bulbs, efficient appliances, low-flow toilets, and other renovations. These investments typically break-even within five years in reduced gas and utility bills (Exhibit J). However, the savings for SGPS depends on the structure of the lease. If tenants pay for utilities, they will be reaping the benefits of such efficiencies while the SGPS pays for the investments. The SGPS may feel that this is justified because members are being served better, but it is still important to consider the impacts of such measures on the bottom line. In the interest of simplicity, and in order to get a non-volatile operating income, these investments can be treated as one-time costs if they are made in the first year.

**Comparison: Housing Strongly Preferred**

The short-term profitability of housing is much more attractive than the cafe. Both the first year profits and the profits of subsequent years are much larger for the Housing Authority. As well, the profitability of the Housing Authority is more steady and predictable after the first year, while the profitability of the cafe is volatile as it is dependent on many more variables.

**3.2 Variance in Expected Profit**

**Cafe:**

As shown in figure 3, profits are expected to rise by \$47,000 after the first year. From the second year to the third year, profits are expected to rise by \$5,000 (Exhibit L).

**Figure 3: Changes in Net Income for SGPS Cafe**

<i>In \$CAD</i>	Expected Net Income	Change from Previous Year
Year 1	-42,855	--
Year 2	4,110	+46,965
Year 3	8,980	+4,870

To get a better sense of variance in expected profit, QBC also calculated the total range in operating income for the current Queen’s cafes. One cafe had a range in operating income of \$51,000 over three years and another cafe had a range of \$123,000 over five years. As a percentage of sales revenue, the first cafe had a net income range that was 22% of revenue while the second cafe had a percentage of 15%. These numbers are volatile, suggesting that an SGPS Cafe could not be considered a reliable and steady long-term source of income.

### *Housing Authority:*

Due to a large number of undetermined variables, the profitability of the housing authority is extremely variable. These variables include, but are not limited to, the price of the property, the number of tenants, the monthly rent collected, the terms of the mortgage, the maintenance fees, the property taxes, and the property management fees. Houses must be carefully assessed on a case-by-case basis.

Given a hypothetical property, QBC projects annual net income for the first year to range from a \$17,000 loss under a pessimistic scenario to a \$20,000 profit under an optimistic scenario for the same property (Exhibit H again). Even when assessing current properties available on the Kingston market, QBC found a large variability in their expected profitability, though QBC considers these to fall within the realistic realm of our projections. The profitability of these properties ranged from an annual loss of \$7,000 to a profit of \$8,000 (Exhibit M).

The most significant variable that determines the profitability of the Housing Authority is the mortgage expense, which is affected by the interest rate. The smallest change in interest rates can have a significant effect on the bottom line. The mortgage calculator tool, given in the financial Excel model, will enable the SGPS to accurately calculate monthly mortgage payments (Exhibit I again). The SGPS only needs to enter inputs based on the mortgage terms received from the financial institution and the calculator will produce the amount of monthly payments, as well as other useful metrics.

Other factors that affect profitability are variables that completely depend on the preferences of the SGPS. These factors include upgrades, maintenance, and rent charged. Depending on the desired level of quality that the SGPS wants for its properties, the costs of upgrades go up or down. There can sometimes be a trade-off between the SGPS's two primary objectives of financial profitability and serviceability.

If the SGPS desires to operate a housing initiative that serves its members well, it should look into investments to upgrade its properties. Furthermore, the SGPS would be well-served to charge its tenants lower-than-market rates for rent. However, this will lower the profitability of the housing authority. Alternatively, if the SGPS is to operate an optimally profitable Housing Authority, it must charge its tenants market rates and minimize spending. This will erode the Housing Authority's serviceability. Members may feel underserved as a result. The ultimate balance of these trade-offs depends on the SGPS's goals and priorities.

There are definitely examples of organizations that have succeeded in both goals. That is, serve members with better housing alternatives and still earn a positive return on investment. However, this is only possible with expertise and experience in selecting an appropriate property and running it efficiently. For example, the Student Housing Cooperative (former Sci '44 Co-op) has managed to earn positive returns while providing higher-than-average quality housing to its members.

*Comparison: Housing Moderately Preferred*

Both alternatives have a high degree of variability in expected profits. However, this analysis still favours housing over the cafe, as the Housing Authority’s profits are more predictable and less volatile over time. The variance in the expected profits of housing comes from the fact that it is very case-dependent. Properties must be assessed on a case-by-case basis. Upon completion of the assessment of properties, their profitability can be gauged with a reasonable degree of accuracy. However, the financial feasibility of a cafe is dependent on many factors that are beyond SGPS’s control and these factors can significantly swing the financial performance of the cafe from year to year.

**3.3 Start-up Costs**

*Cafe:*

To calculate start-up costs, QBC used the costs incurred within the first year of an undisclosed student-run on-campus cafe and then modified these numbers to account for differences. These final numbers were used to calculate the required start-up costs for the first year of an SGPS cafe. The final value is approximately \$195,000 and is broken down further in figure 4 below (Exhibit N).

**Figure 4: SGPS Cafe Start-up Costs**

<b>Start-Up Costs</b>	<i>(In \$CAD)</i>
<b>Cost of Goods Sold Inventory</b>	18,415
<b>Operating Expenses</b>	
Administrative Supplies	12,418
Launch Advertising	5,261
Capital Investments	123,816
Pre-Launch Management Salary	13,367
Materials & Supplies	15,133
Rent	6,950
<b>Total Start-Up Costs</b>	<b>195,359</b>

This total includes capital purchases, initial inventory, office supplies, launch advertising, management salaries, start-up materials, and initial rent (or allocated space) payments. The bulk of this cost would be capital purchases, which would total around \$124,000 in order to operate a cafe with revenues of around \$532,000.

These start-up costs mean that SGPS would need to spend about 80% of the \$250,000 of available capital. SGPS would not need to apply for any loans to start operating a cafe.

### *Housing Authority:*

The start-up costs associated with the housing authority can be divided into two main categories: down payment on the property and other start-up costs. The most significant start-up cost involves the purchase of property, which will be the down payment on the property. The remainder will be amortized as monthly mortgage payments and categorized under annual costs.

Other start-up costs consist of one-time costs such as lawyer fees, transfer taxes, and one-time upgrades. These costs will be categorized as start-up costs rather than investments. This will make the cash flows steady and non-volatile. Treating these costs as investments will create imbalances among annual cash flows and unnecessarily complicate the analysis.

The total start-up cost is very flexible to the SGPS's preferences, but there are certain trade-offs. The costs of lawyer fees, transfer taxes, and one-time upgrades must be paid up front. However, the SGPS has the option to decide how much down payment it wants to put down on the property. The SGPS may decide to keep a certain amount of cash on hand as an "emergency fund" for other uses. The trade-off is the opportunity cost of capital. That is, the difference in the amount of interest expense that can be saved in monthly mortgage payments by putting down a larger down payment on the property and the value that the fund has for emergency purposes. The ideal balance is determined by what the SGPS feels more comfortable with.

Lawyer fees and transfer taxes are somewhat fixed at around \$1,200 and \$8,000 respectively. One-time upgrades are highly variable and depend on the specific property, as well as the level of quality targeted by the SGPS. These costs range from \$5,000 to \$15,000 and have been forecasted to be around \$10,000 by prorating actual costs from Student Housing Cooperative to the property value.

Therefore, the total start-up costs can be roughly forecasted as: \$19,200 + Down payment on property (Exhibit O).

### *Comparison: Neutral*

Both the Housing Authority and the SGPS cafe have similarly flexible levels of start-up costs, rendering this a tie. The SGPS Cafe can be launched as a smaller or larger operation, thus changing the required initial capital investment. As well, SGPS can apply for a loan to cover a portion of the start-up costs. Similarly, the Housing Authority's required initial capital is largely influenced by the size of mortgage that SGPS would prefer. However, it is important to note that both options will inevitably be availing some capital for emergencies should the SGPS find itself in a dire situation.

### 3.4 Break-even Analysis

#### *Cafe:*

A break-even analysis was conducted for the first three business years to determine the amount of sales revenue that would be required to have a zero net income. In the first year, break-even sales revenue is \$1,016,000, which would be an increase of 91% over current expected revenue. The breakeven revenue numbers are approximately \$501,000 for Year 2 and \$471,000 for Year 3 (Exhibits E – G again). A break-even analysis was also done to calculate the number of years it would take, given the expected revenue projections, for the SGPS cafe to break-even on cumulative net income.

$$BEP = \frac{\text{Start-up Costs}}{\text{Annual Net Income}}$$

This is an important calculation given the substantial negative income in Year 1. According to the analysis, it would take 5.31 years (Exhibit P).

#### *Housing Authority:*

In the case of housing, break-even analysis in terms of units or dollars of sales does not make much intuitive sense. The break-even point in terms of time can be calculated using annual net income. The Housing Authority is expected to break-even within the first year, given that it is expected to accrue positive net income every year including the first.

#### *Comparison: Housing Strongly Preferred*

A comparison of the break-even analysis between the two alternatives is pretty straight forward. While it will take the SGPS Cafe over 5 years to break-even on net income, it will take the Housing Authority less than one. Thus, this analysis strongly favours housing in terms of breaking even on net income.

### 3.5 Return on Investment

#### *Cafe:*

To calculate return on investment, total start-up costs will be used as the required initial capital investment. A nominal 25-year Return on Investment value for the SGPS cafe would be -14.11% (Exhibit P again). This calculation is done under the assumption that costs and revenues stabilize and are constant after the third year. As well, equipment upgrades and replacement costs are not included, and would render the figure even more negative. QBC further calculated that it would take 28 years for the cafe to reach a 0% return on investment. In other words, it would take 28 years for enough net income to accumulate so that it covered the initial start-up cost.

### *Housing Authority:*

The down payment on the property is not lost and almost completely refundable (provided the property is sold for no lower than its initial price); thus, it will not be considered in the short-term ROI analysis. Other start-up costs such as lawyer fees, one-time upgrades, and transfer taxes will be treated as the initial investment. There are two practical ways to perform this analysis: the return on cash investment and the return on overall investment. The cash ROI only considers cash income, disregarding non-cash gains. The overall break-even point considers all gains and losses, using net income as the denominator.

$$\text{Cash BEP} = \frac{\$19,200}{\$3,184} = 6.03 \text{ years}$$

$$\text{Overall BEP} = \frac{\$19,200}{\$11,313} = 1.70 \text{ years}$$

According to the analysis, it will take 6 years for SGPS to recoup its investment in cash terms and roughly 21 months for SGPS to recoup its investment in net income terms. This is based on the expected hypothetical scenario.

In calculating the nominal 25-year return on investment, QBC included the down payment on the property as part of the initial investment. In this case, the amount invested would be the same as the start-up costs. Return on investment for the Housing Authority is forecasted to be approximately 99% over 25 years, based on the expected hypothetical scenario. The zero net gain recovery of this investment is projected to occur at the beginning of year 17 (Exhibit Q).

### *Comparison: Housing Strongly Preferred*

The expected return on investment of housing is much higher than that of the SGPS cafe. Over a 25-year period, the Cafe is expected to have a nominal return on investment of -14%, compared to 99% for Housing, as a total over the 25 years. As well, with the down payment included, the Housing Authority is projected to recoup its total investment in 17 years, while the cafe is expected to do so in 28 years. This is partially due to the fact that housing will be heavily financed using debt, so the gains of the initial investment are higher.

That being said, housing is expected to have a positive net cash position every year. It will only take nearly 21 months to reach the recovery point in terms of recouping the start-up cash costs. Overall, this analysis strongly favours housing.

## 3.6 Cash Flow

### *Cafe:*

The SGPS is projected to be cash flow negative of approximately \$109,000 over its first year of operations, assuming that the entire investment is financed by SGPS capital (Exhibit R). Furthermore, to assess the liquidity of this assessment, the total resale value of all of the cafe's start-up costs is around 65%. In other words, in the case of a cash emergency where the SGPS would need to attain cash by selling off all cafe-related assets, it would be able to recoup about 65% of the money that it had initially invested. This is calculated under the assumption that all assets with any re-sale value can be sold for 75% of purchase cost. This number can be changed in the dynamic financial Excel model.

### *Housing Authority:*

The cash flow projections for the first five years of operation have been provided in Exhibit S, based on an expected hypothetical scenario. The Housing Authority should expect a negative cash flow in its first year of operations due to the start-up costs that are incurred in year one. However, all subsequent cash flows are expected to be positive and remain almost constant over the term of the mortgage amortization.

### *Comparison: Housing Strongly Preferred*

This analysis strongly favours housing with regards to cash flow. Regardless of how well the cafe performs financially, it still has much larger negative cash flows in its early years of operations. This ties up large amounts of capital and reduces flexibility. On the other hand, housing has steady and predictable cash flows over the years, making it a safer investment by simplifying capital budgeting.

## 3.7 Growth Potential

### *Cafe:*

On a macro level, the growth potential for this cafe would be influenced primarily by the change in the student population. However, looking more deeply at the current competitive landscape, there are already several cafes, coffee shops, and dining establishments on or around the Queen's campus that would be direct competitors. Furthermore, the opening of the new Queen's Centre, and the dining establishments inside, increase the density of the competition.

Without accounting for these changes, QBC has calculated the changes in sales revenue of current Queen's cafes to assess how these cafes have grown in recent years as an indicative measure. These cafes have exhibited compounded annual growth rates (CAGR) in sales revenue of 4.40% and 2.73% (Exhibit L again). It is important to look at both past growth numbers and the future competitive market

to assess the growth potential of an SGPS cafe. Both past and future analysis would indicate that an SGPS cafe has limited growth potential.

### *Housing Authority:*

There is definite growth potential for the Housing Authority, but it is very slow. In essence, the net change in assets must be large enough to support another property investment. The net change in assets consists of the cumulative net operating income plus the total mortgage principal paid off. As housing requires a substantial investment, growth potential is almost non-existent in the first several years of operations. However, as the principal payment on the mortgage increases every year, the net change in assets grows at an increasing rate. For example, the Student Housing Cooperative started with one property in 1941, and they now own 21 properties worth a total of \$12 million.

Therefore, while there is virtually no short-term growth potential for housing, the long-term potential is great. Essentially, there are no growth opportunities until the point at which there is a large enough amount of cash that can be used to take out another mortgage and purchase another property. At that point, the net change in assets will be substantial, and the SGPS can grow substantially at once. The nature of real estate investing makes constant yearly growth nearly impossible.

### *Comparison: Housing Strongly Preferred*

The Housing Authority has much better growth potential in comparison with the cafe's stagnant income. The Housing Authority has periodic "leaps" in growth. For example, the housing authority will have no growth potential for several years, until the retained earnings have grown to a substantial level. At that point, the SGPS will have the option to invest that capital anywhere it chooses to.

## **3.8 Debt Ratio**

### *Cafe:*

Given that start-up costs do not exceed the amount of available capital that the SGPS has, the SGPS would not need to take on debt in order to finance the SGPS cafe and, thus, would not have a debt ratio of significance.

### *Housing Authority:*

The debt ratio measures what percentage of the total assets is funded by debt. It is calculated by dividing total debts by total assets. In the case of housing, total debts would be the total value of the mortgage, while total assets would be the total value of the property. Based on a property value of \$800,000, and a down payment of \$250,000, under the expected scenario, the debt ratio as of year zero would be nearly 70%. The calculations are as follows:

Value of mortgage = \$800,000 - \$250,000 = \$550,000

$$\text{Debt Ratio} = \frac{\$550,000}{\$800,000} = 68.75\%$$

*Comparison: Cafe Moderately Preferred*

The debt ratio of housing is estimated to be around 70%, while the debt ratio of a cafe is expected to be zero. The leveraged structure of the Housing Authority allows the SGPS to substantially grow its assets and basically run a larger operation. So long as the SGPS earns returns that are larger than its interest rates, it will benefit from leverage by increasing its ROI. However, having no debt means that there are no interest expenses, giving the operation more flexibility with its capital. Additionally, the business will be able to receive loans from financial institutions as it has not yet exhausted its debt capacity. For this reason, the SGPS feels that the cafe is moderately favoured over housing under this criterion.

### 3.9 Financial Comparison Matrix

Note: This chart is for comparing the two projects, not for evaluating the merit of each project as a stand-alone option.

Recommendation (Percentage Captured)	Weight	Strong Cafe (100%)	Moderate Cafe (50%)	Neutral (0%)	Moderate Housing (50%)	Strong Housing (100%)
Short-term Profit	5					X
Variance in Expected Profit	3				X	
Start-up Costs	5			X		
Break-even Analysis	3					X
Return on Investment	5					X
Cash Flow	3					X
Growth Potential	3					X
Debt Ratio	1		X			
<b>Total Weighted Points</b>			<b>0.5</b>	<b>0</b>	<b>0.5(3) = 1.5</b>	<b>5+3+5+3+3 = 19</b>
<b>Cafe Total</b>	<b>0.5</b>					
<b>Housing Total</b>	<b>20.5</b>					

After going through each financial criterion, it has been determined that, overall, the Housing Authority will better serve SGPS in terms of financial profitability. The weights for each criterion are based off its importance as pertaining to the financial goals that the SGPS wishes to achieve. It is safe to say that the housing option overwhelmingly exceeds the cafe option; thus, even if the weights or percentage captured are changed, it likely will not alter the final recommendation to go forward with the Housing Authority – if it *must* be compared to the cafe.

## **4. Serviceability Analysis**

QBC conducted a survey of the SGPS members to generate qualitative data on their preferences and needs. A copy of the raw data and summarized analysis for this survey is provided to you in Excel format. This survey generated 328 responses. 14 respondents decided not to provide their e-mail address, which was the only required question. The rest of the questions were optional, which means that some of the questions were not filled out by everyone and, thus, there are a variable number of completions per question. This variability has been taken into account. General demographics for survey respondents can be seen in Exhibit T.

Overall, this survey will be an accurate representation of the 4,000 member SGPS organization 95% of the time, with an error of +/-5%.

### **4.1 Number of Additional SGPS Members Impacted**

#### ***Cafe:***

From the results gathered, a strong majority of SGPS members do not frequent cafes such as Starbucks, Common Ground, The Tea Room, or the Tim Hortons on campus. Averaging the four cafes, one can see that only 33%, or 1 in 3 SGPS members, would find value in a cafe similar to the four aforementioned cafes (Exhibit U).

The goal here is to ascertain how many additional SGPS members can be served if a cafe was put into place by SGPS. This ignores the frequency of visits and instead focuses on purely the number of SGPS members that would or would not go. In considering such, the SGPS needs to evaluate whether the way it will run the cafe will generate more or fewer people than the number that currently go to cafes.

This can have a few of implications. One might hypothesize that most SGPS members simply do not like the current cafe offerings on or close to campus. The other hypothesis is that SGPS members are not cafe-goers in general. To prove or disprove these, one needs to see if the current offerings satisfy the current cafe-goers' needs. If they do not, then it is an issue of the operational factors of the on-campus cafes, and thus changes in operations may increase visitors. If they do satisfy needs, perhaps it is more of a systemic issue with SGPS members simply not being frequent cafe-goers.

When QBC examined the fact that 78% and 69% of the people that go to cafes are neutral or satisfied with their choices of menu options and overall healthy menu options respectively, QBC believes the analysis suggests that the current cafe-goers are satisfied. In addition, when one looks at the question "Which of the following services for graduate and professional students would you prefer?" one can see that again, 33% of respondents said they would like to have an SGPS cafe that is similar to the Common Ground (Exhibit V). That is comparable to the 33% of SGPS members that go to cafes, suggesting that if the SGPS opened a cafe similar to the Common Ground, it can expect to generate the amount of traffic

similar to other cafes. That number, had it been higher, would have suggested that there is a percentage of the SGPS population that would like a cafe that is not similar to the four cafes listed (Starbucks, Common Ground, The Tea Room, or the Tim Hortons on campus), and are unsatisfied with the current options.

Judging from the survey, it seems that opening a cafe would make the current number of cafe-goers happy, but no additional SGPS members would go to the cafe. Therefore, the number of additional SGPS members serviced would roughly equal the number of current cafe-goers, but no more.

### *Housing Authority:*

To gauge how many more people might be served if the SGPS ran a Housing Authority, QBC looked at how many students are currently dissatisfied with their housing search process, how many housing units will be provided, and the lesser of the two should provide a proxy on how many incremental SGPS members would benefit.

26% and 10% of the SGPS membership are Slightly Dissatisfied and Very Dissatisfied respectively, with the amount of time it took them to find housing in Kingston (Exhibit W). This means that 36% - or roughly 1 in 3 – SGPS members would probably take up the offer of a housing initiative if the SGPS decided to do so. Coupled with the similar 37% of people who believe they are overpaying for the level of their current housing quality, it seems likely that there will be sufficient demand for the housing initiative, provided the SGPS can help members save time and money in their housing search.

The current estimates project roughly eight housing units to be available for the Housing Authority. Seeing as roughly 1 in 3 SGPS members would likely take up the service, the eight spots will be filled very quickly. Thus, in terms of purely served members, only eight members would be served.

### *Comparison: Cafe Strongly Preferred*

The cafe is likely the better choice here. The reason basically hinges on the fact there is great potential for many SGPS members to be serviced by the cafe, while it is known that at the start there will not be that many housing units available through the Housing Authority. Though the increase in the number of cafe-goers is predicted to not increase, the cafe at least is a gain and a positive service for those that currently like going to cafes.

## **4.2 Amount of the Impact**

### *Cafe:*

**Dollar Value:** The dollar value of the impact depends on how much the SGPS cafe would be charging on average compared to what cafe-goers are currently paying. Since there is dissatisfaction with the healthiness of menu items at cafes, the SGPS cafe would likely have to price between \$4 and \$6 due to

the increase in the healthiness of its menu options. This would infer a “health premium” charge of roughly 50%-100% on top of less healthy items, since those are currently charged at between \$2-\$4. If the SGPS decides to price its products at the average per visit spend per customer of between \$4 and \$6, then it is likely that customers would be paying more at the SGPS cafe than they currently do elsewhere, thus impacting those who do not care for healthy menu items in a negative manner.

**Frequency:** Of the people that do go to a cafe, 69% of them go only once or twice a week, 19% go three to four times a week, and the remainder, 12%, go five or more times a week. This shows that the large majority of the SGPS members that go to cafes go infrequently, and that it is not a daily habitual occurrence. Since the locations listed in the survey are all on campus, it is unlikely that a cafe will impact an SGPS member’s life more than a couple times a week.

**Time Spent:** This can be measured by how much time SGPS members are likely to spend additionally at the cafe if an SGPS cafe is opened. Right now, of the cafe-goers among SGPS members, 58% simply grab whatever they buy and leave without spending more time in the cafe. 17% of the cafe-goers stay for a quick break, with the remaining 25% of people either staying to eat, drink, study, or meet with other people. It can be inferred that the majority of SGPS members that go to cafes do so only for quick purchases or short breaks, which means that a cafe is not likely to foster more time spent. Even Starbucks, the highest ranked in terms of the location where the most SGPS members spend time studying, garners only 11% of the population. If a Starbucks-like atmosphere is achieved, one can take that 11% as a reasonable upper-bound on how much time SGPS members will spend studying at an SGPS cafe.

### *Housing Authority:*

**Dollar value:** Currently, 42% of SGPS members pay more than \$600 per month in rent excluding utilities, 15% pay between \$500 and \$600, and 30% pay between \$400 and \$500. If the SGPS prices its housing units at the realistic rate of \$550 per month excluding utilities, then roughly 50% of SGPS members would be benefiting from a less-expensive rent price, should they be able to get housing from the Housing Authority.

**Frequency:** The frequency of use for the Housing Authority can be seen in two ways: searching and on-going maintenance. Searching for housing is a one or two-time event that generally occurs right before a new school year begins or right after the school year ends. In those terms, the impact of the Housing Authority on SGPS members is minimal. However, the frequency of exposure would be on a daily basis as they would be living in SGPS housing. There will likely be signage on the house denoting it as an SGPS house, and maintenance and rent payments would expose the members to the SGPS organization overall on a regular basis as well.

**Time Spent:** For the individuals that would be receiving SGPS housing, the time spent would be daily whenever the individuals are home. The impact in terms of time here is thus very high, albeit to a smaller population.

### *Comparison: Housing Moderately Preferred*

Although this could be interpreted in either way, QBC is leaning toward the Housing Authority as a stronger option in terms of overall impact. While it is true that a Housing Authority would only benefit a smaller population than the cafe, there is clearly a greater desire for a housing initiative while the same desire for a cafe is less defined as shown by the survey data. The SGPS members that have a hard time finding housing have fewer alternatives to go to for help while cafe-goers that are unsatisfied have plenty of options to choose from, and the consequences of still not finding a satisfactory cafe is not as substantial as not finding affordable housing.

## **4.3 Quality of Options**

### *Cafe:*

Options in the cafe are defined as two things in this evaluation: variety and healthiness. For both of these, at first glance, it is hard to tell much difference in terms of the number of people being satisfied and dissatisfied. Of the people that go to cafes, 32% are neutral regarding their satisfaction with menu choices (Exhibit X). 29% and 18% are slightly satisfied and very satisfied respectively while 14% and 7% are slightly dissatisfied and very dissatisfied respectively. To see where the weight of the opinion lies, QBC calculated the skew of the distribution, and found a skew of -4%, which indicates that the mass of the distribution is further right than the mean. In other words, there are more people satisfied than are dissatisfied than the pure averages would suggest.

For the healthiness aspect, however, the same calculations were done with differing results. 36% of SGPS members are neutral on the healthiness of menu options. Exhibit W shows that 25% and 8% are slightly satisfied and very satisfied while 18% and 13% are slightly dissatisfied and very dissatisfied (1% discrepancy due to averaging of options). This distribution has a skew of 70%, suggesting a strong distribution of mass to the left of the mean. This shows that there is a strong tendency for SGPS members to be dissatisfied with the current healthiness of menu options at existing near-campus cafes.

It seems there is a high potential for the SGPS cafe to meet the need for SGPS members to have healthier choices on the menu. If that can be achieved, then the cafe would increase the quality of options for current SGPS cafe-goers, and perhaps draw in new customers.

### *Housing Authority:*

The quality of options is extremely limited for the housing initiative because of the limited number of housing units SGPS can take on. These housing units would also likely be very similar, with minor differences perhaps occurring in room size, location, or available facilities.

### *Comparison: Cafe Strongly Preferred*

When looking at the quality of options between the two projects, it is important to judge both the volume of variety as well as the type of variety. Quality of service is discussed in the next section. Thus, looking at those two aspects, the cafe is clearly the better option, with current cafes offering a broad range of choices and the ability for the SGPS to easily step in with healthy menu choices. Healthy food can mean many things to many people, and thus it will not be hard to offer a wide range of selection. Housing on the other hand, is more limited in scope to what quality options means, and thus would lose out to the cafe in this criterion.

## **4.4 Quality of Service / Product**

### *Cafe:*

An area where the SGPS cafe can improve the quality of service and product that it provides for SGPS members is the healthier menu items. This need was outlined in the previous report QBC did for the SGPS in 2007. Since the majority of the population is either slightly dissatisfied or very dissatisfied with current healthy menu options, the cafe can be very serviceably to SGPS members if it fills this need (Exhibit Y).

### *Housing Authority:*

Under a Housing Authority, only quality houses would be selected. This is reflected in the draft bylaws that have been made by the SGPS. Further to that, if the SGPS decides to pursue a Housing Authority, it would be doing so for the long run, and thus quality housing units are essential for longevity. However, it should be noted that of the people that paid between \$400-\$500 per month, 74% of them believed they were paying the right amount and 20% believed they were over-paying, while of those paying over \$600 per month, only 45% believed they were paying the right amount and 49% believed they were over paying (Exhibit Z). Although the actual quality of housing cannot be objectively judged through our survey, it seems that there is a ballpark range of prices SGPS would have to stay within to ensure that the quality matches what SGPS members are paying. Since the pricing will be around \$550 per month without utilities, it is reasonable to believe that between 45% and 73% (mean of 59%) of people will think they are paying the right amount of money for the quality of housing they are receiving.

### *Comparison: Neutral*

The reason both options comparably satisfy the quality of service / product is because although the increase in healthy menu options at the cafe will benefit more people, the increase in quality can be quite substantial in terms of housing from what current SGPS members are living with. This comparison can vary depending on how much emphasis the SGPS puts on increasing healthy menu options or increasing housing quality. However, on average, it seems both could increase in quality on a modest level.

## 4.5 SGPS Brand Awareness

### *Cafe:*

**Existing SGPS members:** From the open-ended comment section, QBC found that certain members of the existing SGPS membership were not aware of the services that the SGPS offered while others were fully aware, indicating a wide spectrum of brand awareness. To quote some of the comments:

“I like the work of the SGPS especially the newsletter but feel like it needs more publicity”

“I have been surprised at the breadth of services offered by SGPS.”

“We definitely need to have more services run by students for students.”

While these comments reflect individual thoughts and opinions, they do offer insight into how vast the challenge of branding the SGPS is to its very own membership. By opening a cafe, it will greatly increase the amount of brand awareness around the SGPS internally by virtue of spreading the word via SGPS channels. It remains to be seen whether that awareness translates into positive gains for the SGPS brand image – that largely depends on the value the cafe provides.

**Non-SGPS members:** This will immensely increase the SGPS brand to the rest of the Queen’s population that are not SGPS members. Seeing as non-SGPS members would never get SGPS newsletters, be eligible for SGPS services, or come across other SGPS members or faculty that often, a cafe with SGPS in its name would definitely increase awareness. This would be the one service that non-SGPS members can also use, making it a great connection point for non-SGPS members to the SGPS.

### *Housing Authority:*

**Existing SGPS members:** Since 95% of SGPS members do not own their own house, news of this service will likely be spread very fast amongst existing members. Even if members do not end up living in a property rented out by the Housing Authority, many will likely apply to rent out that space (and not succeed) or use the Housing Authority for price comparisons.

**Non-SGPS members:** Since this service would not be open to non-SGPS members, the awareness factor here only resides in signage on the houses that SGPS would be maintaining. This would account for negligible exposure.

### *Comparison: Cafe Strongly Preferred*

Though awareness of SGPS for SGPS members would be similar for both options, the cafe would garner much higher brand awareness from non-SGPS members. Since the cafe would be open to all students, this particular SGPS service can be experienced by everyone and not just SGPS members. Provided that quality service is there, the spread of the SGPS name and reputation will be more positive if the SGPS chooses to run a cafe.

## 4.6 Networking and Community Building

### *Cafe:*

For this criterion, QBC looked at how frequently SGPS members connect with other SGPS members at cafes. On average, 81% of SGPS members do not spend any time meeting with other professional or graduate students at cafes (Exhibit AA). 16% of SGPS members meet other SGPS members one to two times a week, with the remaining 3% meeting three or more times a week. This is consistent with the 3% of SGPS members that cited “I stay to meet other people” as best describing their behaviour when visiting cafes (Exhibit AB). It should be noted that the Common Ground and the Tea Room have two to four times more respondents saying that they stay to meet other people, suggesting that a way for the SGPS cafe to encourage more networking and community building would be to emulate the ambiance that those two cafes currently have. Otherwise, the two conclusions are that the vast majority of SGPS members do not meet other SGPS members at cafes or SGPS members simply do not meet other SGPS members. Since the latter is likely to be false, the former is likely to be representative of current SGPS members’ behaviours.

### *Housing Authority:*

From the previous survey that the SGPS did in 2007 (Exhibit AC), one can see that 20% of respondents preferred to have 3-5 other housemates and 41% of respondents preferred to have 1-2 housemates. 39% of respondents wished to live alone. This shows a majority desire for SGPS members to connect with others in their living quarters since 61% of SGPS members wish to live with at least one other person. It is also worthy to note that since 2002, when the first survey was done by SGPS, the trend has remained consistent in percentage terms. Over time, it is reasonable to assume that the trend will continue, and that communal housing will still be desired by the majority of SGPS members. Since it is more economical for the SGPS to acquire housing that has many units, it would serve the SGPS members’ desires to have multiple housemates very well.

### *Comparison: Housing Strongly Preferred*

The housing initiative clearly serves to help the SGPS members network with each other. Since cafes can cater to both SGPS and non-SGPS members, SGPS-only housing units are places where members can meet other members on a regular basis. In addition, because current cafes do not seem to be desirable places to meet with other SGPS members, running an SGPS cafe may result in the same behaviour, even if it is named the SGPS Cafe. The housing on the other hand would greatly serve a desire for SGPS members to live with each other and, thus, would satisfy this criterion very well.

## 4.7 Convenience

### *Cafe:*

Convenience in this case is defined as time *saved* getting to a cafe. Since cafes on campus are readily accessible from various points on campus, having a SGPS cafe will not increase the convenience for SGPS members by much.

### *Housing Authority:*

Convenience in this sense means proximity to major places of interest, such as the Queen's campus, laundry facilities, downtown Kingston, etc. From the SGPS survey gathered in 2008 (Exhibit AD), QBC knows that 55% of respondents ranked proximity to the Queen's campus as very important, 61% ranked laundry facilities as very important, and 49% ranked proximity to shops and services as very important. It is important to note that 75% of SGPS members ranked walking as their preferred method of transportation, and that the preferred maximum amount of travel time to get to class was 8-10 minutes, as suggested by 25% of the population (Exhibit AE). Another 25% indicated 10-14 minutes as a maximum amount of time to get to class, while 14% of the respondents indicated a preference of getting to class in less than 7 minutes.

The properties that the Housing Authority has considered fall within the 10 to 14 minute walking distance from campus. That means that of the 75% of people that walk to campus, 61% of them will find the SGPS houses within a good distance from campus. There will also be the 25% of people that drive or ride their bicycles to campus that will also likely find the 10-14 minute travel time acceptable, bringing the total to roughly 86%. Presumably, the Housing Authority would increase the convenience for eight SGPS members, given that the property would take the place of a less convenient option.

### *Comparison: Housing Strongly Preferred*

Since the cafe will not increase convenience for SGPS members very much, and the Housing Authority has the definite potential to increase convenience for a certain population, the Housing Authority is deemed to be more capable in satisfying the convenience factor of serviceability.

## 4.8 Employment Opportunities

### *Cafe:*

Next to Cost of Goods Sold, payroll is the second highest expense for the cafes as investigated by QBC. With that in mind, QBC surveyed the SGPS membership and found that 87% of SGPS members would not take a minimum wage job if offered by the SGPS (Exhibit AF). However, that number almost reverses when asked the question if they would work for \$20/hour, with 77% of respondents saying yes

and 23% saying no. 62% of respondents said they would work for a salary if the SGPS offered the opportunity.

With those figures in mind, it seems as if the traditional cafe operation of hiring staff at minimum wage would not be desirable to a strong majority of SGPS members. It seems to be purely a money issue, as a strong majority would work part-time if the pay went up to \$20/hour. Since payroll is already cutting into net income substantially, it would not be feasible for any cafe to offer rates even close to \$20/hour. In order for this criterion to be satisfied, SGPS would need to pursue the option of hiring full-time salaried SGPS members or look at hiring non-SGPS members to fill the part-time slots.

### *Housing Authority:*

The Housing Authority would also be looking at the same survey responses as the cafe did. The Housing Authority, however, will not be offering as many employment opportunities as the cafe. Since most of the maintenance work will be outsourced, there will only be a few administrative roles that need to be filled. Similar to the cafe, it would be unreasonable to hire at \$20/hour for administrative duties, and thus the salaried approach or hiring from non-SGPS members would likely occur.

### *Comparison: Cafe Strongly Preferred*

Although neither option seems to be able to pay at the rate for which SGPS members would be willing to work, the cafe option will offer a greater volume of employment opportunities for SGPS members than the Housing Authority would. Although the pay per hour or pay per person might be the same for both options, the fact that there would be more SGPS members employed will give more positive impact to the cafe option.

## **4.9 Money Saved**

### *Cafe:*

The prices that SGPS members currently pay at cafes vary quite a bit depending on which establishment they go to. For example, at Starbucks, 37% of people that go there pay under \$2 per visit, while 53% of people that go to the Tim Hortons on campus pay under \$2 per visit (Exhibit AG). Starbucks and Common Ground also have a very large percentage of customers in the \$4-\$6 range (26% and 22% respectively) while the Tea Room and the Tim Hortons on Campus have a small percentage of customers in that range (7% and 8% respectively). The amount saved would really depend on what the pricing and positioning of the SGPS cafe is. If the positioning is similar to that of Starbucks and Common Ground, yet the pricing is as low as Tim Hortons, then there will be some money saved.

Judging from the responses, it seems that if the SGPS is to run a cafe, it would need to be more similar to Starbucks and Common Ground to provide for more meeting ambiance. 41% of respondents said they would like an SGPS lounge with study space and meeting rooms. That, in addition to respondent

preferences for more healthy options, means the pricing would need to be around \$4-\$6 as mentioned earlier in the 'Amount of the Impact' sub-section.

### ***Housing Authority:***

If the SGPS prices the housing units at roughly \$500 excluding utilities, it would be helping 57% of its members save money, since 57% of current SGPS members pay over \$500 a month for their housing (Exhibit AH). With the analysis so far, SGPS is pricing each unit at \$550 per month without utilities. Thus, a price of \$550 would likely help about 50% of SGPS members save money on their housing, if they are one of the eight chosen for the Housing Authority.

### ***Comparison: Housing Strongly Preferred***

Since the cafe would be pricing higher than the average cafe, it is unlikely to save customers any money. The Housing Authority on the other hand, has a chance to help all eight of its tenants save money from what they are currently paying.

#### 4.10 Serviceability Comparison Matrix

Note: This chart is for comparing the two projects, not for evaluating the merit of each project as a stand-alone option.

Recommendation (Percentage Captured)	Weight	Strong Cafe (100%)	Moderate Cafe (50%)	Neutral (0%)	Moderate Housing (50%)	Strong Housing (100%)
Additional SGPS Members Impacted	5	X				
Amount of Impact	3				X	
Quality of Options	1	X				
Quality of Service / Product	3			X		
SGPS Brand Awareness	3	X				
Networking and Community Building	5					X
Convenience	5					X
Employment Opportunities	1	X				
Money Saved	3					X
<b>Total Weighted Points</b>		<b>5+1+3+1 = 10</b>		<b>0</b>	<b>0.5(3) = 1.5</b>	<b>5+5+3 = 13</b>
<b>Cafe Total</b>	<b>10</b>					
<b>Housing Total</b>	<b>14.5</b>					

After going through each serviceability criterion, it has been determined that overall the Housing Authority will better serve SGPS members than the cafe option would. The weights for each criterion are based off its importance as pertaining to the serviceability goals the SGPS wishes to achieve. It is a bit risky to say that the housing option overwhelmingly exceeds the cafe option; thus, if the weights or percentage captured are changed, it may alter the final recommendation to go forth with the Housing Authority. This is the scenario if it *must* be compared to the cafe, and is not an assessment of the feasibility of either option by itself.

## **5. Legal Issues**

QBC utilized its strategic partnership with the Queen’s Business Law Clinic (QBLC) to get legal opinion on some of the questions that the SGPS had posed. The QBLC provided its legal opinion with the understanding that the facts, as represented to them by the SGPS and QBC, are true, accurate, and complete.

### **5.1 General**

These legal issues deal with both the cafe and the Housing Authority or deal with recommended steps for the SGPS in general.

#### ***Shell Corporation:***

In either scenario – the cafe or the Housing Authority – a not-for-profit corporation (the “NFP”) can and should be incorporated as a separate entity from that of the SGPS. The SGPS would in turn control the NFP through the NFP’s membership; the SGPS could be the sole member of the NFP, or alternatively, membership of the NFP could be restricted to members of the SGPS.

This organizational structure would protect the SGPS from liability with respect to the operations of the NFP. However, any members of the SGPS that are Directors of the NFP will remain potentially liable in their personal capacities.

Any payments with respect to such operations would be made by the NFP.

It remains to be determined how the NFP would receive its funding. The NFP could be funded through annual student fees of SGPS members, or it could be funded on a less regular basis through payments directly from the SGPS to the NFP.

#### ***Third-party Investors:***

While the SGPS does not have any clear legal responsibilities toward Queen’s University (the University) that would affect third-party investment in the NFP, the University maintains some degree of control over the SGPS in practice. This is due to the nature of the process by which the SGPS receives student fees. Such fees are subject to the approval of the Board of Trustees of the University.

As a result, a healthy relationship between the University and the SGPS remains necessary. The SGPS is therefore best off avoiding third-party investment where that investment has the potential to negatively affect the relationship between the University and the SGPS.

It is recommended that the SGPS avoid granting permanent involvement in the NFP to an external party. The relationship should remain solely a contractual one without direct involvement in the activities of the NFP.

If a third-party investor wishes to be actively involved in the NFP, and their contribution is such that it may warrant involvement on the Board of Directors of the NFP, then that involvement should be subject to regular review, and therefore be of a more temporary nature.

Section P.9.3 of the SGPS by-laws governs sponsorships; while there are certain characteristics to be taken into account (i.e. environmental record of sponsor) nothing sets out specific restrictions with respect to investment.

As noted above, it is recommended that this relationship (between SGPS and OPIRG) not be permanent and that the current draft by-laws should be altered as a result. The relationship ought to remain a contractual one without direct involvement in the NFP's activities or management. There does not appear any reason to concede membership in the NFP or to give a permanent position on the Board of Directors of the NFP.

#### *By-laws:*

Membership in the NFP should be appropriately restricted to a class of people that the SGPS wishes to exert control over the NFP.

Examples:

- a) Grad Club Inc. is an example of a not-for-profit structure that runs a restaurant/bar on campus. Their by-laws provide for six different classes of membership. Membership is open to all graduate students that have paid their dues in full and such members have voting rights and are able to stand for election as a Director.
- b) The current SGPS Housing Authority draft by-laws provide for 15 directors, 5 of whom serve ex-officio with respect to SGPS executive positions, 7 of whom are to be SGPS members appointed by SGPS council, and 3 of whom are to be OPIRG representatives as appointed by the Board of OPIRG Kingston.
- c) The Alma Mater Society (the "AMS") is the student government organization that represents undergraduate students at the University. The AMS has established a not-for-profit corporation for the purpose of managing the services and associated financial affairs of the AMS (16.01.02 – AMS Constitution). The members of the corporation are members of the Assembly of the AMS (16.01.03). The Assembly is made up of the AMS executive and representatives from their member organizations (i.e. Arts and Science).

The SGPS by-laws should provide for the establishment, specific purposes and membership of the NFP. Further, the by-laws might set out the process of funding the NFP from the SGPS budget.

The NFP will need its own set of by-laws. Once the SGPS has decided upon a particular project and upon that project's general structure, the QBLC would be pleased to help draft the NFP's by-laws.

### *Conflicts of Interest:*

Conflicts of interest would be resolved according to ordinary corporate by-laws and the fiduciary duties placed upon any Directors of the corporation. That is, as a general rule, a Director cannot put himself in a position in which his own interests might conflict with the duty of loyalty to the corporation. It is possible that the SGPS is concerned with a specific incidence of conflict that we haven't considered; if that is the case, we would be happy to opine on that specific issue.

In respect of one possible conflict of interest, the NFP's by-laws could limit or remove the possibility of its Directors receiving any remuneration for acting in such a capacity.

### *Student Leadership:*

The NFP by-laws may address the transient nature of SGPS leadership by tying the positions of its Directors to particular positions in the SGPS executive.

Further, permanent non-student members could be part of the Board. For instance, the by-laws of the AMS Corporation stipulate that 2 of their 15 Directors shall be professors or other non-student persons familiar with the University.

### *Profits Generated:*

The NFP's by-laws will stipulate what the specific purpose of the NFP is. In turn, the Board of the NFP will be under a duty to act in accordance with this purpose.

It is open to the SGPS, as the controlling body of the NFP, to stipulate more specific rules surrounding the appropriate uses of profits in the NFP's by-laws. It is therefore necessary for the SGPS to first determine how such profits will be used before the NFP is given its mandate.

### *Relationship to Queen's University:*

The relationship that the NFP might have with the University is unclear, as the relationship the SGPS has with the University is itself unclear. Having reviewed the SGPS policies/by-laws, the University's Royal Charter, and the accompanying policies of the Board of Trustees, it appears that the SGPS is largely an independent body. As noted, the SGPS reiterated this position when contacted.

The SGPS does, however, have specific relationships with the University. Examples include:

- JDUC Constitution
- Student Academic/Non-academic Discipline
- The Board of Trustees of the University approves SGPS student activity fees

While nothing above necessarily suggests any specific legal obligations that would affect the NFP, given the above, and given other contractual relationships that may exist, it remains possible that the University might have a legal interest in what SGPS does. The SGPS should confirm this relationship, and if necessary, ask the QBLC for a further opinion.

At the very least, it is likely that the NFP will have a contractual relationship with the University. A cafe is likely to rent space on-campus, while a Housing Authority is likely to take advantage of certain exemptions available to landlords associated with the University, as discussed below.

There should not be any concerns regarding a legal relationship between the SGPS's housing authority and Queen's University itself. As noted, to the extent that the SGPS is legally autonomous from the University then the NFP will be similarly autonomous.

However, given that there are useful exemptions within the Residential Tenancies Act (RTA – detailed further below under 'Housing Authority – Provincial Legislation') for post-secondary institutions, the Housing Authority is best off having a contractual relationship with the University whereby the Housing Authority can take advantage of these exemptions. Therefore a legal relationship between the SGPS and the University is likely to exist through contract. Similarly, if the cafe is to rent space on-campus, there is likely to be a contractual relationship between the NFP and the University.

## 5.2 Cafe Specific

Below is a brief summary of the applicable laws to the SGPS cafe. Their specific application will depend on the facts of the particular situation and the operational structure the SGPS decides upon.

### *Provincial Legislation:*

The cafe would need to meet the requisite health safety standards and obtain approval from the local public health unit:

Health Protection and Promotion Act R.S.O. 1990, CHAPTER H.7

[http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_90h07\\_e.html](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90h07_e.html)

Further, in selling goods, a vendor's permit in respect of the collection and remission of provincial retail sales tax would be required:

Retail Sales Tax

<http://www.rev.gov.on.ca/en/guides/rst/300.html>

As an employer, the cafe would be subject to additional duties:

Occupational Health and Safety Act R.S.O. 1990, CHAPTER O.1

[http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_90o01\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90o01_e.htm)

Guide - <http://www.labour.gov.on.ca/english/hs/pubs/ohsa/index.php>

Employment Standards Act, 2000 S.O. 2000, CHAPTER 41

### *City By-laws:*

A Food Service Premises Licence would be required, subject to fire, health and building approvals.

## **5.3 Housing Authority Specific**

If established as a Housing Authority, the NFP would effectively be a landlord. There are thus the accompanying landlord responsibilities in addition to specific contractual liabilities (i.e. each lease is a specific contract).

### *Provincial Legislation:*

As a landlord, the Housing Authority would be responsible for meeting any obligations to tenants created under provincial legislation. These include responsibilities with respect to:

- Maintenance Standards
- Repairs
- Services

The Residential Tenancies Act provides certain exemptions for educational institutions and post-secondary educational institutions in particular. By entering into an agreement with the University, the Housing Authority could thereby be exempt from the rules with respect to termination agreements (s. 37 of the RTA).

Residential Tenancies Act, 2006 S.O. 2006, CHAPTER 17

[http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_06r17\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_06r17_e.htm)

ONTARIO REGULATION 516/06 GENERAL

[http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_060516\\_e.htm](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_060516_e.htm)

ONTARIO REGULATION 517/06 MAINTENANCE STANDARDS

[http://www.e-laws.gov.on.ca/html/regs/english/elaws\\_regs\\_060517\\_e.htm](http://www.e-laws.gov.on.ca/html/regs/english/elaws_regs_060517_e.htm)

### *City By-laws:*

Further, the Housing Authority would be subject to City Property Standards:

CORPORATION OF THE CITY OF KINGSTON Ontario By-law No. 2005-100

A BY-LAW FOR PRESCRIBING STANDARDS FOR THE MAINTENANCE AND OCCUPANCY OF PROPERTY WITHIN THE CITY OF KINGSTON

[http://www.cityofkingston.ca/pdf/bylaws/bl\\_2005-100.pdf](http://www.cityofkingston.ca/pdf/bylaws/bl_2005-100.pdf)

### *Other:*

The Housing Authority would be subject to additional responsibilities with respect to the following:

Personal Information Protection and Electronic Documents Act 2000, c. 5

<http://www.canlii.org/en/ca/laws/stat/sc-2000-c-5/latest/sc-2000-c-5.html>

Freedom of Information and Protection of Privacy Act R.S.O. 1990, CHAPTER F.3

[http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_90f31\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90f31_e.htm)

Occupiers' Liability Act R.S.O. 1990, CHAPTER O.2

[http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_90o02\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_90o02_e.htm)

Building Code Act, 1992 S.O. 1992, CHAPTER 23

## **5.4 Assessment**

From the QBLC's responses, it seems that both options are legally viable without too much extra burden on the SGPS. There can be procedures put into place to ensure the SGPS is well protected and that its goals are met. The QBLC is happy to entertain any further inquiries regarding either of these two projects.

## **6. Recommendations**

### **6.1 Cafe**

In a stand-alone feasibility analysis, QBC does *not* recommend the SGPS go forward with the cafe project, regardless of whether or not the SGPS chooses to implement the Housing Authority.

From a financial perspective, running a cafe could be profitable, although any potential returns will not be large enough to warrant the investment. By itself, the cafe project would require too large of a start-up cost for the return it is garnering, have too much variability in potential income, and show essentially no growth potentials for the future.

Serviceability wise, the cafe option does better, although it is still *not* recommended that the SGPS proceed with it. This is still our recommendation even if the SPGS wanted to invest in the cafe for purely serviceability reasons. The criteria that the cafe does satisfy – with the exception of additional SGPS members impacted – are not the most important criteria that the SGPS should be focusing on. Major issues also include the presence of many alternatives and substitutes on campus – especially with the opening of the Queen’s Centre. Another major issue would be the seeming lack of interest in cafes overall by the SGPS membership for networking or general use as indicated by the survey.

### **6.2 Housing Authority**

The Housing Authority shows promise as a project on its own, but after weighing in all the factors, QBC also recommends that the SGPS does *not* go forward with this initiative using their current independent approach. This is not to say that the SGPS cannot run any sort of housing initiative, but only that, as per the descriptions and outlines of the Housing Authority as it stands, QBC does not project it to be a successful venture based on the outlined criteria. Our alternative suggestions and final recommendation regarding the Housing Authority is outlined in the latter ‘Other Considerations’ section.

Financially speaking, the Housing Authority is stable, but many trade-offs exist between profitability and serviceability. For example, if the SGPS prices its housing units closer to market prices to optimize profit, the SGPS members will receive fewer benefits in terms of money saved. Another major downside is that an extremely limited number of students would be serviced by this project while putting the SGPS with 80% less cash and leveraged at a debt ratio of close to 70%. This imbalance of impact, whereby the entire SGPS is impacted by a weaker financial situation in the short run while the beneficiaries are less than 0.5% of the SPGS population, is another major reason why QBC recommends that the SGPS does not invest in a Housing Authority on its own.

Additionally, many other schools, such as University of Toronto, have attempted to run similar independent housing initiatives, only to run into obstacles in terms of management expertise and

proper or inefficient operational procedures. The SGPS would likely find itself in a similar predicament in terms of implementation issues if it decided to pursue the housing project independently.

### 6.3 Comparing Cafe to Housing Authority

If the SGPS does decide to proceed with a project, QBC recommends that the project be the Housing Authority. On a balance of merits, the Housing Authority is the superior alternative to the cafe in both the financial realm and the serviceability realm.

Though the two projects are inherently different, the measures by which QBC assessed them were applicable to both projects. In general, the financial outlook for the Housing Authority is more stable, predictable, and show more growth potential than the cafe. Serviceability wise, the Housing Authority is able to service the aspects most important to SGPS members, such as increased networking and community building, increased convenience, money saved, and the amount of impact on those it was able to service.

It is QBC's opinion that the SGPS should not feel pressured to have to choose one of these options to pursue. As these current options stand, they will either deteriorate the SGPS's financial health in an attempt at garnering serviceability or they will sacrifice the purpose of the SGPS to service its membership for the sake of maintaining financial resources.

### 6.4 Other Considerations

#### *Cafe Labour Costs:*

Because Common Ground is currently operating at a negative net income, QBC decided to investigate their cost structure and see if there are any areas for potential improvement. The immediate cost figure that came to attention was labour, which includes payroll, clothing, insurance, staff appreciation, and turnover. In analyzing costs as a percentage of sales revenue, labour accounted for 41% of sales revenue in 2008-2009 for Common Ground. As well, in interviews with business managers for student-run on-campus cafes, a common theme was that managing students has been the biggest challenge, from both a managerial and financial perspective.

Thus, QBC brainstormed potential ways in which labour costs could be easily reduced. A large inefficiency that on-campus cafes have is the employment of students who generally only work 2-4 hours per week. While the wage costs would be roughly the same of a cafe that only employed full-time employees, there could be a drastic reduction in the non-payroll portion of labour costs, assuming that these costs are a somewhat linear function of total staff employed. By switching from employing students to employing full-time employees, the SGPS can reduce non-payroll labour costs by 86% and total labour costs by 6%. The calculations of these cost improvements are displayed in the projected income statements in Exhibit AI and AJ. Furthermore, the main projected profit statements throughout

all of the exhibits will have projections for net income before and after these labour cost savings. If the SGPS still decides to pursue this project, they should consider these changes to quickly improve the profitability of the cafe.

Clearly, there exists a trade-off between creating student jobs and reducing payroll costs. However, as was outlined in the survey, 87% of graduate and professional students would not be willing to take a minimum wage job, making it very difficult for the SGPS cafe to compete for the remaining minimum wage student labour with all of the other student-run establishments available.

### *Housing Partnerships:*

QBC believes that it would be worthwhile for the SGPS to investigate other ways that they can pursue the housing project while, at the same time, capitalizing on their core strengths. Thus, QBC believes that the SGPS should investigate further into a partnership with an established housing initiative in Kingston, such as the Student Housing Cooperative.

This effectively serves to mitigate many of the issues that would have plagued the SGPS should it decide to run the Housing Authority itself. For example, the operational and management expertise issues would be resolved by partnering with an organization that already knows best how to manage a housing initiative. The SGPS would also be able to immediately tap into a larger pool of housing units, allowing it to service more SGPS members. The limited size of the SGPS can also be mitigated by this partnership because the required input from the SGPS would be minimal beyond setting up the partnership, providing the capital, and some on-going involvement.

QBC presented this idea to a few housing initiatives in Kingston that would be willing to further pursue this idea, particularly the Student Housing Cooperative. QBC would be more than happy to be retained next semester to provide guidance in that task.

## Exhibit A: Income Statement for Common Ground in Dollars

	Income Statement				
	04-05	05-06	06-07	07-08	08-09
<b>Sales Revenue</b>	\$ 682,022	\$ 795,918	\$ 894,136	\$ 873,527	\$ 780,440
<b>Cost of Goods Sold (COGS)</b>	\$ 291,530	\$ 375,423	\$ 416,803	\$ 408,918	\$ 335,869
<b>Gross Profit</b>	\$ 390,492	\$ 420,495	\$ 477,332	\$ 464,609	\$ 444,572
<b>Operating Expenses</b>					
Administration	\$ 9,956	\$ 31,184	\$ 38,475	\$ 44,720	\$ 48,032
Advertising & Entertainment	\$ 12,043	\$ 5,059	\$ 6,769	\$ 7,528	\$ 5,582
Depreciation	\$ 27,655	\$ 33,541	\$ 33,124	\$ 22,458	\$ 11,877
Labour	\$ 173,096	\$ 234,127	\$ 266,658	\$ 294,376	\$ 323,267
Maintenance	\$ 5,691	\$ 15,944	\$ 9,927	\$ 17,725	\$ 6,503
Materials & Supplies	\$ 52,103	\$ 66,464	\$ 63,334	\$ 64,736	\$ 50,836
Rent	\$ 30,580	\$ 38,000	\$ 40,000	\$ 42,000	\$ 42,000
<b>Total Operating Expenses</b>	\$ 311,125	\$ 424,319	\$ 458,287	\$ 493,544	\$ 488,096
<b>Operating Income (Loss)</b>	\$ 79,367	\$ -3,823	\$ 19,045	\$ -28,935	\$ -43,524
<b>Non-Recurring Income (Loss)</b>	\$ 4,032	\$ 2,424	\$ 3,644	\$ 549	\$ 312
<b>Net Income (Loss)</b>	\$ 83,399	\$ -1,400	\$ 22,689	\$ -28,385	\$ -43,212

## Exhibit B: Income Statement for Common Ground in % of Revenue

	Income Statement (% of Revenue)				
	04-05	05-06	06-07	07-08	08-09
<b>Sales Revenue</b>	100%	100%	100%	100%	100%
<b>Cost of Goods Sold (COGS)</b>	43%	47%	47%	47%	43%
<b>Gross Profit</b>	57%	53%	53%	53%	57%
<b>Operating Expenses</b>					
Administration	1%	4%	4%	5%	6%
Advertising & Entertainment	2%	1%	1%	1%	1%
Depreciation	4%	4%	4%	3%	2%
Labour	25%	29%	30%	34%	41%
Maintenance	1%	2%	1%	2%	1%
Materials & Supplies	8%	8%	7%	7%	7%
Rent	4%	5%	4%	5%	5%
<b>Total Operating Expenses</b>	46%	53%	51%	57%	63%
<b>Operating Income (Loss)</b>	12%	0%	2%	-3%	-6%
<b>Non-Recurring Income (Loss)</b>	1%	0%	0%	0%	0%
<b>Net Income (Loss)</b>	12%	0%	3%	-3%	-6%

## Exhibit C: Detailed Income Statement for Common Ground

	Income Statement Breakdown				
	04-05	05-06	06-07	07-08	08-09
<b>Sales Revenue</b>					
Hot Drinks	\$250,697	\$286,847	\$316,534	\$276,435	\$255,914
Cold Drinks	\$ 47,354	\$ 49,501	\$ 58,980	\$ 55,003	\$ 50,934
Ice Drinks	\$ 54,784	\$ 64,694	\$ 47,685	\$ 62,775	\$ 50,617
Food	\$258,398	\$298,176	\$336,202	\$275,520	\$345,177
Desserts	\$ 52,020	\$ 65,091	\$ 75,608	\$ 62,580	\$ 63,428
Retail	\$ 4,957	\$ 3,390	\$ 4,047	\$ 1,837	\$ 1,474
Catering	\$ 9,965	\$ 7,737	\$ 5,126	\$ 5,758	\$ 12,898
Other	\$ 3,846	\$ 20,482	\$ 49,953	\$133,619	\$ 0
<b>Total Sales Revenue</b>	<b>\$682,022</b>	<b>\$795,918</b>	<b>\$894,136</b>	<b>\$873,527</b>	<b>\$780,440</b>
<b>Cost of Goods Sold (COGS)</b>					
Hot Drinks	\$ 70,795	\$ 87,065	\$ 95,194	\$ 82,950	\$ 70,256
Cold Drinks	\$ 28,014	\$ 26,834	\$ 27,347	\$ 28,417	\$ 25,228
Ice Drinks	\$ 15,172	\$ 23,763	\$ 13,261	\$ 21,656	\$ 19,251
Food	\$155,747	\$203,652	\$243,066	\$238,958	\$196,529
Desserts	\$ 21,335	\$ 30,250	\$ 37,194	\$ 36,931	\$ 24,573
Retail	\$ 468	\$ 3,857	\$ 741	\$ 5	\$ 32
<b>Total COGS</b>	<b>\$291,530</b>	<b>\$375,423</b>	<b>\$416,803</b>	<b>\$408,918</b>	<b>\$335,869</b>
<b>Gross Profit</b>	<b>\$390,492</b>	<b>\$420,495</b>	<b>\$477,332</b>	<b>\$464,609</b>	<b>\$444,572</b>
<b>Operating Expenses</b>					
<b>Administration</b>					
Allocated Charge	\$ 9,000	\$ 30,000	\$ 34,000	\$ 38,000	\$ 40,000
Bank Fees	-	-	-	-	-
Delivery & Courier	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,088
Office Supplies	\$ 230	\$ 1,205	\$ 3,578	\$ 5,302	\$ 2,852
Phone	\$ 1,090	\$ 1,055	\$ 1,118	\$ 1,202	\$ 1,164
Other	\$ -363	\$ -1,075	\$ -221	\$ 217	\$ -72
<b>Total Administration</b>	<b>\$ 9,956</b>	<b>\$ 31,184</b>	<b>\$ 38,475</b>	<b>\$ 44,720</b>	<b>\$ 48,032</b>
<b>Advertising &amp; Entertainment</b>					
Advertising	-	-	-	-	-
Entertainment	-	-	-	-	-
<b>Total Advertising &amp; Entertainment</b>	<b>\$ 12,043</b>	<b>\$ 5,059</b>	<b>\$ 6,769</b>	<b>\$ 7,528</b>	<b>\$ 5,582</b>

Exhibit C continued:

<b>Depreciation</b>						
Construction	-	-	-	-	-	-
Equipment	-	-	-	-	-	-
Furniture	-	-	-	-	-	-
Hardware	-	-	-	-	-	-
<b>Total Depreciation</b>	<b>\$ 27,655</b>	<b>\$ 33,541</b>	<b>\$ 33,124</b>	<b>\$ 22,458</b>	<b>\$ 11,877</b>	
<b>Labour</b>						
Payroll						
Wages	\$122,271	\$176,538	\$203,718	\$194,901	\$214,451	
Salaries	\$ 48,874	\$ 53,718	\$ 58,320	\$ 85,031	\$ 85,874	
Total Payroll	\$171,145	\$230,256	\$262,038	\$279,931	\$300,326	
Clothing	\$ 1,059	\$ 801	\$ -357	\$ 903	\$ -412	
Insurance	-	-	-	-	-	
Staff Appreciation	-	-	-	-	-	
Turnover	\$ 200	\$ 553	\$ 1,014	\$ 10,434	\$ 21,123	
Other	\$ 692	\$ 2,517	\$ 3,962	\$ 3,108	\$ 2,230	
<b>Total Labour</b>	<b>\$173,096</b>	<b>\$234,127</b>	<b>\$266,658</b>	<b>\$294,376</b>	<b>\$323,267</b>	
<b>Maintenance</b>	<b>\$ 5,691</b>	<b>\$ 15,944</b>	<b>\$ 9,927</b>	<b>\$ 17,725</b>	<b>\$ 6,503</b>	
<b>Materials &amp; Supplies</b>	<b>\$ 52,103</b>	<b>\$ 66,464</b>	<b>\$ 63,334</b>	<b>\$ 64,736</b>	<b>\$ 50,836</b>	
<b>Rent</b>	<b>\$ 30,580</b>	<b>\$ 38,000</b>	<b>\$ 40,000</b>	<b>\$ 42,000</b>	<b>\$ 42,000</b>	
<b>Total Operating Expenses</b>	<b>\$311,125</b>	<b>\$424,319</b>	<b>\$458,287</b>	<b>\$493,544</b>	<b>\$488,096</b>	
<b>Operating Income (Loss)</b>	<b>\$ 79,367</b>	<b>\$ -3,823</b>	<b>\$ 19,045</b>	<b>\$ -28,935</b>	<b>\$ -43,524</b>	
<b>Non-Recurring Income (Loss)</b>						
Grants & Fundraising	\$ 3,282	\$ 1,751	\$ 2,830	\$ 0	\$ 0	
Tax Adjustments	\$ 750	\$ 673	\$ 814	\$ 549	\$ 312	
Other Non-Recurring Income (Loss)	-	-	-	-	-	
<b>Total Non-Recurring Income (Loss)</b>	<b>\$ 4,032</b>	<b>\$ 2,424</b>	<b>\$ 3,644</b>	<b>\$ 549</b>	<b>\$ 312</b>	
<b>Net Income (Loss)</b>	<b>\$ 83,399</b>	<b>\$ -1,400</b>	<b>\$ 22,689</b>	<b>\$ -28,385</b>	<b>\$ -43,212</b>	

## Exhibit D: 3-Year Projection of Expected Net Income for the SGPS Cafe

	Year 1	Year 2	Year 3
<b>Sales Revenue</b>	\$ 531,574	\$ 531,574	\$ 531,574
<b>Cost of Goods Sold (COGS)</b>	\$ 220,980	\$ 209,931	\$ 199,434
<b>Gross Profit</b>	\$ 310,594	\$ 321,643	\$ 332,140
<b>Operating Expenses</b>			
<b>Administration</b>	\$ 27,722	\$ 13,861	\$ 13,861
<b>Advertising &amp; Entertainment</b>	\$ 10,522	\$ 5,261	\$ 5,261
<b>Depreciation</b>	\$ 18,768	\$ 18,768	\$ 18,768
<b>Labour</b>	\$ 208,225	\$ 204,479	\$ 204,479
<b>Maintenance</b>	\$ 6,875	\$ 6,875	\$ 10,313
<b>Materials &amp; Supplies</b>	\$ 39,637	\$ 24,504	\$ 24,504
<b>Rent</b>	\$ 41,700	\$ 43,785	\$ 45,974
<b>Total Operating Expenses</b>	\$ 353,449	\$ 317,533	\$ 323,159
<b>Net Income (Loss)</b>	\$ -42,855	\$ 4,110	\$ 8,980
<b>Net Income (Loss) as a % of Revenue</b>	-8.1%	0.8%	1.7%
<b>Labour Savings</b>	\$ 12,648	\$ 12,421	\$ 12,421
<b>New Net Income (Loss)</b>	\$ -30,206	\$ 16,531	\$ 21,401
<b>New Net Income (Loss) as a % of Revenue</b>	-5.7%	3.1%	4.0%

## Exhibit E: 5-Scenario Projection of Net Income and Breakeven (Units) for the SGPS Cafe in Year 1

	Year 1					
	Break-Even	Very Pessimistic	Slightly Pessimistic	Expected	Slightly Optimistic	Very Optimistic
<b>Scenario</b>	91%	-30%	-15%	0%	15%	30%
<b>Sales Revenue</b>	\$ 1,016,120	\$ 372,102	\$ 451,838	\$ 531,574	\$ 611,310	\$ 691,046
<b>Cost of Goods Sold (COGS)</b>	\$ 422,410	\$ 154,686	\$ 187,833	\$ 220,980	\$ 254,127	\$ 287,274
<b>Gross Profit</b>	\$ 593,710	\$ 217,416	\$ 264,005	\$ 310,594	\$ 357,183	\$ 403,772
<b>Operating Expenses</b>						
Administration	\$ 52,991	\$ 19,405	\$ 23,564	\$ 27,722	\$ 31,880	\$ 36,038
Advertising & Entertainment	\$ 10,522	\$ 10,522	\$ 10,522	\$ 10,522	\$ 10,522	\$ 10,522
Depreciation	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768
Labour	\$ 394,614	\$ 146,882	\$ 177,554	\$ 208,225	\$ 238,897	\$ 269,569
Maintenance	\$ 13,142	\$ 4,813	\$ 5,844	\$ 6,875	\$ 7,906	\$ 8,938
Materials & Supplies	\$ 61,973	\$ 32,286	\$ 35,961	\$ 39,637	\$ 43,312	\$ 46,988
Rent	\$ 41,700	\$ 41,700	\$ 41,700	\$ 41,700	\$ 41,700	\$ 41,700
<b>Total Operating Expenses</b>	\$ 593,710	\$ 274,375	\$ 313,912	\$ 353,449	\$ 392,986	\$ 432,523
<b>Net Income (Loss)</b>	\$ 0	\$ -56,959	\$ -49,907	\$ -42,855	\$ -35,803	\$ -28,751
<b>Net Income (Loss) as a % of Revenue</b>	0.0%	-15.3%	-11.0%	-8.1%	-5.9%	-4.2%
<b>Labour Savings</b>	\$ 23,970	\$ 8,922	\$ 10,785	\$ 12,648	\$ 14,511	\$ 16,375
<b>New Net Income (Loss)</b>	\$ 23,970	\$ -48,037	\$ -39,122	\$ -30,206	\$ -21,291	\$ -12,376
<b>New Net Income (Loss) as a % of Revenue</b>	2.4%	-12.9%	-8.7%	-5.7%	-3.5%	-1.8%

## Exhibit F: Year 2 Projection of Net Income and Breakeven (Units)

	Year 2					
	Break-Even	Very Pessimistic	Slightly Pessimistic	Expected	Slightly Optimistic	Very Optimistic
<b>Scenario</b>	-6%	-30%	-15%	0%	15%	30%
<b>Sales Revenue</b>	\$ 501,194	\$ 372,102	\$ 451,838	\$ 531,574	\$ 611,310	\$ 691,046
<b>Cost of Goods Sold (COGS)</b>	\$ 197,933	\$ 146,952	\$ 178,441	\$ 209,931	\$ 241,421	\$ 272,910
<b>Gross Profit</b>	\$ 303,261	\$ 225,150	\$ 273,397	\$ 321,643	\$ 369,889	\$ 418,136
<b>Operating Expenses</b>						
Administration	\$ 13,069	\$ 9,703	\$ 11,782	\$ 13,861	\$ 15,940	\$ 18,019
Advertising & Entertainment	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261
Depreciation	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768
Labour	\$ 192,793	\$ 143,135	\$ 173,807	\$ 204,479	\$ 235,150	\$ 265,822
Maintenance	\$ 6,482	\$ 4,813	\$ 5,844	\$ 6,875	\$ 7,906	\$ 8,938
Materials & Supplies	\$ 23,104	\$ 17,153	\$ 20,829	\$ 24,504	\$ 28,180	\$ 31,856
Rent	\$ 43,785	\$ 43,785	\$ 43,785	\$ 43,785	\$ 43,785	\$ 43,785
<b>Total Operating Expenses</b>	\$ 303,261	\$ 242,617	\$ 280,075	\$ 317,533	\$ 354,990	\$ 392,448
<b>Net Income (Loss)</b>	\$ 0	\$ -17,467	\$ -6,678	\$ 4,110	\$ 14,899	\$ 25,688
<b>Net Income (Loss) as a % of Revenue</b>	0.0%	-4.7%	-1.5%	0.8%	2.4%	3.7%
<b>Labour Savings</b>	\$ 11,711	\$ 8,695	\$ 10,558	\$ 12,421	\$ 14,284	\$ 16,147
<b>New Net Income (Loss)</b>	\$ 11,711	\$ -8,772	\$ 3,879	\$ 16,531	\$ 29,183	\$ 41,835
<b>New Net Income (Loss) as a % of Revenue</b>	2.3%	-2.4%	0.9%	3.1%	4.8%	6.1%

## Exhibit G: Year 3 Projection of Net Income and Breakeven (Units)

	Year 3					
	Break-Even	Very Pessimistic	Slightly Pessimistic	Expected	Slightly Optimistic	Very Optimistic
<b>Scenario</b>	-11%	-30%	-15%	0%	15%	30%
<b>Sales Revenue</b>	\$ 471,135	\$ 372,102	\$ 451,838	\$ 531,574	\$ 611,310	\$ 691,046
<b>Cost of Goods Sold (COGS)</b>	\$ 176,759	\$ 139,604	\$ 169,519	\$ 199,434	\$ 229,349	\$ 259,265
<b>Gross Profit</b>	\$ 294,376	\$ 232,498	\$ 282,319	\$ 332,140	\$ 381,961	\$ 431,781
<b>Operating Expenses</b>						
Administration	\$ 12,285	\$ 9,703	\$ 11,782	\$ 13,861	\$ 15,940	\$ 18,019
Advertising & Entertainment	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261	\$ 5,261
Depreciation	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768	\$ 18,768
Labour	\$ 181,230	\$ 143,135	\$ 173,807	\$ 204,479	\$ 235,150	\$ 265,822
Maintenance	\$ 9,140	\$ 7,219	\$ 8,766	\$ 10,313	\$ 11,860	\$ 13,407
Materials & Supplies	\$ 21,718	\$ 17,153	\$ 20,829	\$ 24,504	\$ 28,180	\$ 31,856
Rent	\$ 45,974	\$ 45,974	\$ 45,974	\$ 45,974	\$ 45,974	\$ 45,974
<b>Total Operating Expenses</b>	\$ 294,376	\$ 247,212	\$ 285,186	\$ 323,159	\$ 361,133	\$ 399,106
<b>Net Income (Loss)</b>	\$ 0	\$ -14,715	\$ -2,867	\$ 8,980	\$ 20,828	\$ 32,675
<b>Net Income (Loss) as a % of Revenue</b>	0.0%	-4.0%	-0.6%	1.7%	3.4%	4.7%
<b>Labour Savings</b>	\$ 11,009	\$ 8,695	\$ 10,558	\$ 12,421	\$ 14,284	\$ 16,147
<b>New Net Income (Loss)</b>	\$ 11,009	\$ -6,020	\$ 7,690	\$ 21,401	\$ 35,111	\$ 48,822
<b>New Net Income (Loss) as a % of Revenue</b>	2.3%	-1.6%	1.7%	4.0%	5.7%	7.1%

## Exhibit H: Annual Net Income from Operations for Housing Authority

Address	Hypothetical Scenario		
	Pessimistic	Expected	Optimistic
Asking Price	\$ 850,000	\$ 800,000	\$ 750,000
Types of rooms	1	1	1
Number of rooms A	8	8	8
Number of rooms B	0	0	0
Monthly Rent Revenues A	\$ 4,400	\$ 4,800	\$ 5,200
Monthly Rent Revenues B	\$ 0	\$ 0	\$ 0
Total Monthly Revenues	\$ 4,400	\$ 4,800	\$ 5,200
Annual Rent Revenues A	\$ 52,800	\$ 57,600	\$ 62,400
Annual Rent Revenues B	\$ 0	\$ 0	\$ 0
Total Annual Rent Revenues	\$ 52,800	\$ 57,600	\$ 62,400
Parking Spots	0	1	2
Monthly parking Revenue	\$ 0	\$ 50	\$ 100
Annual Laundry/Storage Revenues	\$ 0	\$ 1,920	\$ 2,520
Annual Parking Revenue	\$ 0	\$ 600	\$ 1,200
Total Annual Revenues	\$ 52,800	\$ 60,120	\$ 66,120
<b>One-time Expenses</b>			
Lawyer Fees	\$ 1,500	\$ 1,200	\$ 1,000
Transfer Taxes	\$ 10,000	\$ 8,000	\$ 6,500
One-time Upgrades	\$ 15,000	\$ 10,000	\$ 5,000
Total One-time Expenses	\$ 26,500	\$ 19,200	\$ 12,500
<b>Annual Expenses</b>			
Utilities	\$ 7,680	\$ 4,800	\$ 2,880
Property Taxes	\$ 5,000	\$ 4,500	\$ 4,000
Property Management and Administrative	\$ 6,424	\$ 7,008	\$ 7,592
Annual Upgrades and Maintenance	\$ 4,000	\$ 3,000	\$ 2,000
Insurance	\$ 1,500	\$ 1,100	\$ 850
Total Annual Expenses	\$ 24,604	\$ 20,408	\$ 17,322
Monthly Mortgage	\$ 3,780	\$ 3,044	\$ 2,416
Annual Mortgage	\$ 45,360	\$ 36,528	\$ 28,992
Assumption - Interest	5.0%	4.5%	4.2%
Assumption - Term	25 Years	25 Years	25 Years
Assumption - Down Payment	\$200,000	\$250,000	\$300,000
Total Annual Cash Inflows	\$ 52,800	\$ 60,120	\$ 66,120
Total Annual Cash Outflows	\$ 69,964	\$ 56,936	\$ 46,314
Annual Net Cash Position	\$ -17,164	\$ 3,184	\$ 19,806

## Exhibit I: Mortgage Calculator

TABLE 1-A: MORTGAGE CALCULATOR INPUTS	
Price	\$ 800,000
Down Payment	\$ 250,000
Interest Rate	4.50%
Compounding Frequency	2
Amortization Term	25
Year X	5

TABLE 1-B: MORTGAGE CALCULATOR OUTPUTS		
Results	Annual	Year X
Monthly Payment	\$ 3,044	\$ 3,044
Amount Borrowed	\$ 550,000	
Total Principal Paid		\$ 67,120
Total Principal Remaining		\$ 482,880
Total Interest Paid		\$ 115,526
Total Payment	\$ 36,529	\$ 182,646
Closing Balance		\$ 482,880

## Exhibit J: 5-Year Projection of Net Income for Housing Authority

	Expected Hypothetical Scenario				
Revenues	Year 1	Year 2	Year 3	Year 4	Year 5
Rent Collected	\$ 57,600	\$ 57,600	\$ 57,600	\$ 57,600	\$ 57,600
Parking Revenues	\$ 600	\$ 600	\$ 600	\$ 600	\$ 600
Laundry/Storage Revenues	\$ 1,920	\$ 1,920	\$ 1,920	\$ 1,920	\$ 1,920
Gains on Capital Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Principal Payments	\$ 12,257	\$ 12,814	\$ 13,397	\$ 14,007	\$ 14,645
<b>Total Revenues</b>	<b>\$ 72,377</b>	<b>\$ 72,934</b>	<b>\$ 73,517</b>	<b>\$ 74,127</b>	<b>\$ 74,765</b>
Expenses	Year 1	Year 2	Year 3	Year 4	Year 5
Mortgage and Loan Interest	\$ 36,528	\$ 36,528	\$ 36,528	\$ 36,528	\$ 36,528
Annual Upgrades and Maintenance	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Property Taxes	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500
Insurance	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100	\$ 1,100
Depreciation	\$ 3,360	\$ 3,360	\$ 3,360	\$ 3,360	\$ 3,360
Utilities	\$ 4,800	\$ 4,800	\$ 4,800	\$ 4,800	\$ 4,800
Property Management and Administrative	\$ 7,008	\$ 7,008	\$ 7,008	\$ 7,008	\$ 7,008
Lawyer Fees	\$ 48	\$ 48	\$ 48	\$ 48	\$ 48
Transfer Taxes	\$ 320	\$ 320	\$ 320	\$ 320	\$ 320
One-time Upgrades	\$ 400	\$ 400	\$ 400	\$ 400	\$ 400
<b>Total Expenses</b>	<b>\$ 61,064</b>	<b>\$ 61,064</b>	<b>\$ 61,064</b>	<b>\$ 61,064</b>	<b>\$ 61,064</b>
<b>Net Income</b>	<b>\$ 11,313</b>	<b>\$ 11,870</b>	<b>\$ 12,453</b>	<b>\$ 13,063</b>	<b>\$ 13,701</b>

## Exhibit K: Student Housing Cooperative Investments

	<b>Incandescent</b>	<b>Equivalent Flourescent</b>
<b>Bulb Type</b>	\$0.40	\$2.50
<b>Price per Bulb</b>	60	13
<b>Watts per Bulb</b>	6,000	10,000
<b>Life Expectancy in Hours</b>	\$0.40	\$2.50
<b>Bulb Cost for 100 Incandescent Bulbs</b>	\$40.00	\$150.00
<b>Cost per kwh</b>	\$0.085	\$0.085
<b>Cost per kwh for 100 bulbs @ 6,000 hours</b>	\$3,060.00	\$663.00
<b>Total Cost for 100 incandescent bulbs</b>	\$3,100.00	\$813.00
<b>Total Cost for 500 incandescent bulbs</b>	\$15,500.00	\$4,065.00
<b>Total Kilowatts Used</b>	360,000	130,000
<b>Total Savings with 100 Fluorescent</b>	\$2,287.00	
<b>Total Savings with 500 Fluorescent</b>	\$11,435.00	

**Exhibit L: Analysis for Growth Potential and Profit Variance of student-run, on-campus cafes**

<b>COMPOUND ANNUAL GROWTH RATE OF REVENUE FOR OTHER CAFES</b>		
	<b>Cafe X</b>	<b>CoGro</b>
<b>Compound Annual Growth Rate (CAGR) of Revenue</b>	4.40%	2.73%

<b>VARIANCE IN EXPECTED PROFIT FOR DIFFERENT CAFES</b>		
	<b>Cafe X</b>	<b>CoGro</b>
<b>Time Period</b>	3	5
<b>Range in Operating Income (Loss)</b>	\$ 51,204	\$ 122,891
<b>Range in Operating Income (Loss) as a % of Revenue</b>	21.97%	14.80%
	<b>SGPS [P]</b>	
	<b>Year 1-2</b>	<b>Year 2-3</b>
<b>Change in Net Income (Loss)</b>	\$ 46,965	\$ 4,870
<b>Change in New Net Income (Loss)</b>	\$ 46,738	\$ 4,870

## Exhibit M: Annual Net Income from Operations using Actual Kingston Properties

Address	Current Market			
	126 Collingwood	506 Johnson	94 Sydenham	556 Brock
Asking Price	\$ 595,000	\$ 395,000	\$ 799,000	\$ 359,900
Types of rooms	2	1	2	1
Number of rooms A	4	5	2	2
Number of rooms B	3	0	6	4
Monthly Rent Revenues A	\$ 2,410	\$ 2,050	\$ 1,100	\$ 1,000
Monthly Rent Revenues B	\$ 1,500	\$ 0	\$ 3,500	\$ 2,000
Total Monthly Revenues	\$ 3,910	\$ 2,050	\$ 4,600	\$ 3,000
Annual Rent Revenues A	\$ 28,920	\$ 24,600	\$ 13,200	\$ 12,000
Annual Rent Revenues B	\$ 18,000	\$ 0	\$ 42,000	\$ 24,000
Total Annual Rent Revenues	\$ 46,920	\$ 24,600	\$ 55,200	\$ 36,000
Parking Spots	1	1	1	0
Monthly parking Revenue	\$ 50	\$ 50	\$ 50	\$ 0
Annual Laundry/Storage Revenues	\$ 0	\$ 0	\$ 0	\$ 0
Annual Parking Revenue	\$ 600	\$ 600	\$ 600	\$ 0
Total Annual Revenues	\$ 47,520	\$ 25,200	\$ 55,800	\$ 36,000
One-time Expenses				
Lawyer Fees	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Transfer Taxes	\$ 8,000	\$ 8,000	\$ 8,000	\$ 8,000
One-time Upgrades				
Total One-time Expenses	\$ 9,200	\$ 9,200	\$ 9,200	\$ 9,200
Annual Expenses				
Utilities	\$ 3,000	\$ 0	\$ 3,500	\$ 3,300
Property Taxes	\$ 4,500	\$ 4,500	\$ 4,500	\$ 4,500
Property Management and Administrative	\$ 5,709	\$ 2,993	\$ 6,716	\$ 4,380
Annual Upgrades and Maintenance	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Insurance	\$ 1,000	\$ 850	\$ 1,100	\$ 850
Total Annual Expenses	\$ 17,209	\$ 11,343	\$ 18,816	\$ 16,030
Monthly Mortgage	\$ 2,411	\$ 1,190	\$ 3,656	\$ 976
Annual Mortgage	\$ 28,932	\$ 14,280	\$ 43,872	\$ 11,712
Assumption - Interest	5.5%			
Assumption - Term	25 Years			
Assumption - Down Payment	\$200,000			
Total Annual Cash Inflows	\$ 47,520	\$ 25,200	\$ 55,800	\$ 36,000
Total Annual Cash Outflows	\$ 46,141	\$ 25,623	\$ 62,688	\$ 27,742
Annual Net Cash Position	\$ 1,379	\$ -423	\$ -6,888	\$ 8,258

**Exhibit N: Projected Start-up Costs and Liquidity for SGPS Cafe**

	<b>Start-Up</b>	<b>Resale Value</b>
<b>Cost of Goods Sold Inventory</b>	\$ 18,415	\$ 13,811
<b>Operating Expenses</b>		
Administrative Supplies	\$ 12,418	\$ 9,313
Launch Advertising	\$ 5,261	\$ 0
Capital Investments	\$ 123,816	\$ 92,862
Pre-Launch Management Salary	\$ 13,367	\$ 0
Materials & Supplies	\$ 15,133	\$ 11,349
Rent	\$ 6,950	\$ 0
<b>Total</b>	<b>\$ 195,359</b>	<b>\$ 127,336</b>
<b>Resale Percentage</b>		<b>65.18%</b>

**Exhibit O: Projected Start-Up Costs for Housing Authority**

<b>Down Payment</b>	<b>\$ 250,000</b>
<b>One-time Expenses</b>	
Lawyer Fees	\$ 1,200
Transfer Taxes	\$ 8,000
One-time Upgrades	\$ 10,000
<b>Total One-time Expenses</b>	<b>\$ 19,200</b>
<b>Total Start-Up Costs</b>	<b>\$ 269,200</b>

**Exhibit P: Return on Investment (ROI) and Break-even (Time) Analysis for the SGPS Cafe**

<b>RETURN ON INVESTMENT (ROI) AND NEW ROI (AFTER LABOUR SAVINGS)</b>			
	<b>Year</b>	<b>ROI</b>	<b>New ROI</b>
<b>Years to Recoup Investment</b>	28.07	0.00%	
<b>Years to Recoup Investment (After Labour Savings)</b>	11.77		0.00%
<b>Nominal 25-Year ROI</b>	25.00	-14.11%	144.96%

<b>BREAK-EVEN ANALYSIS (YEARS)</b>	
<b>Expected Years to Break-Even on Net Income</b>	5.31

**Exhibit Q: Return on Investment (ROI) Analysis for Housing Authority**

<b>Net Income Year</b>	<b>Per Year</b>	<b>Cumulative</b>
Year 1	\$ 11,313	\$ 11,313
Year 2	\$ 11,871	\$ 23,184
Year 3	\$ 12,458	\$ 35,642
Year 4	\$ 13,073	\$ 48,715
Year 5	\$ 13,719	\$ 62,435
Year 6	\$ 14,397	\$ 76,832
Year 7	\$ 15,109	\$ 91,941
Year 8	\$ 15,855	\$ 107,796
Year 9	\$ 16,638	\$ 124,434
Year 10	\$ 17,460	\$ 141,894
Year 11	\$ 18,323	\$ 160,217
Year 12	\$ 19,228	\$ 179,445
Year 13	\$ 20,178	\$ 199,624
Year 14	\$ 21,175	\$ 220,799
Year 15	\$ 22,221	\$ 243,020
Year 16	\$ 23,319	\$ 266,339
Year 17	\$ 24,471	\$ 290,810
Year 18	\$ 25,680	\$ 316,491
Year 19	\$ 26,949	\$ 343,440
Year 20	\$ 28,281	\$ 371,720
Year 21	\$ 29,678	\$ 401,398
Year 22	\$ 31,144	\$ 432,542
Year 23	\$ 32,683	\$ 465,225
Year 24	\$ 34,297	\$ 499,522
Year 25	\$ 35,992	\$ 535,514
<b>Nominal 25-Year ROI</b>		<b>98.93%</b>
<b>Years to Recoup Investment</b>		<b>17</b>

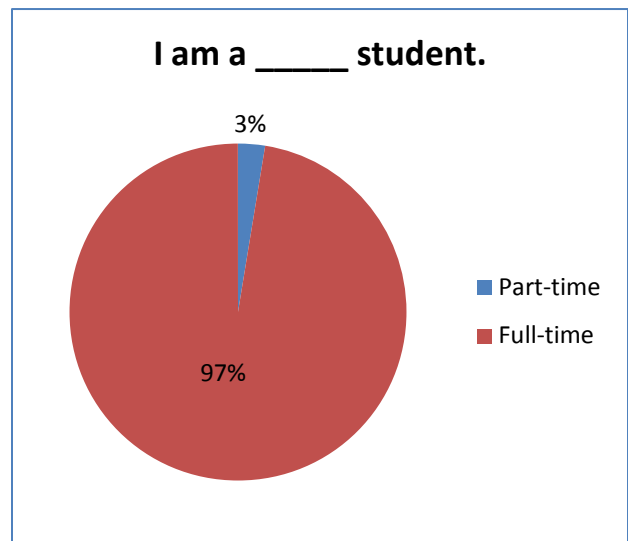
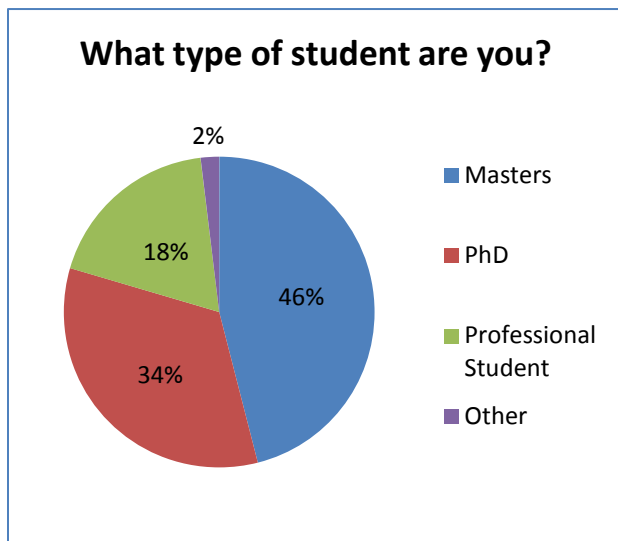
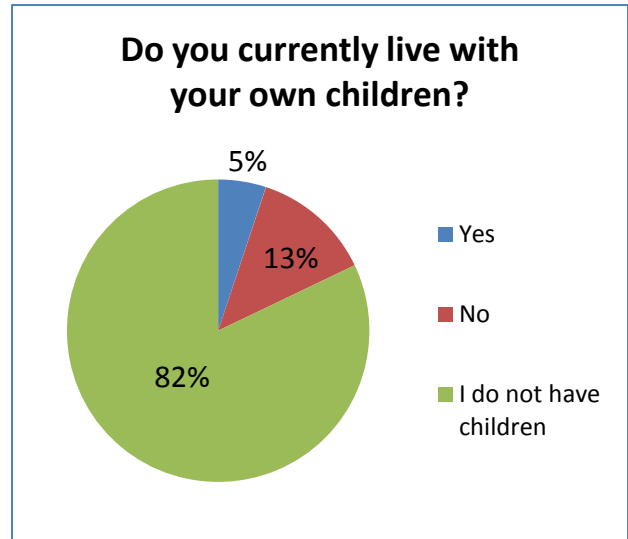
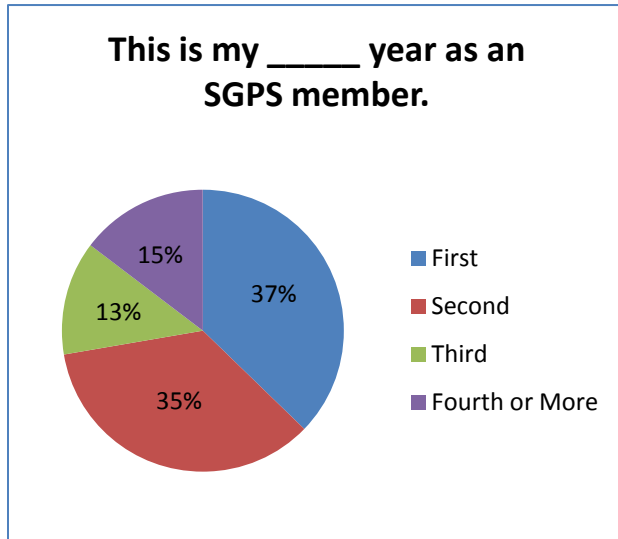
## Exhibit R: Projected Cash Flow for the SGPS Cafe in Year 1

Net Income	\$ -42,855
Depreciation	\$ 18,768
Changes in Working Capital	
Accounts Receivable	\$ 0
Inventories	\$ -18,415
Accounts Payable	\$ 57,443
<b>Cash from Operations</b>	<b>\$ 14,941</b>
Capital Expenditures	\$ -123,816
<b>Cash from Investing</b>	<b>\$ -123,816</b>
Increase in Debt	\$ 0
<b>Cash from Financing</b>	<b>\$ 0</b>
<b>Net Change in Cash Position</b>	<b>\$ -108,875</b>

## Exhibit S: Projected Cash Flow for the Housing Authority for 5 Years

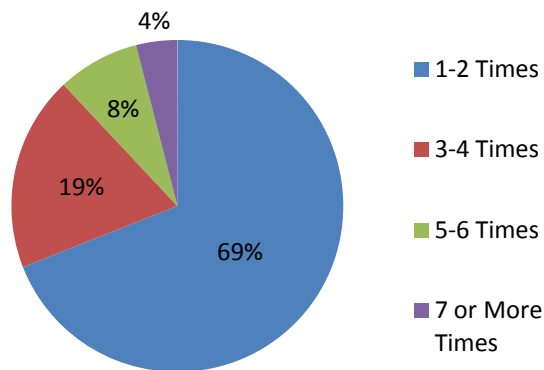
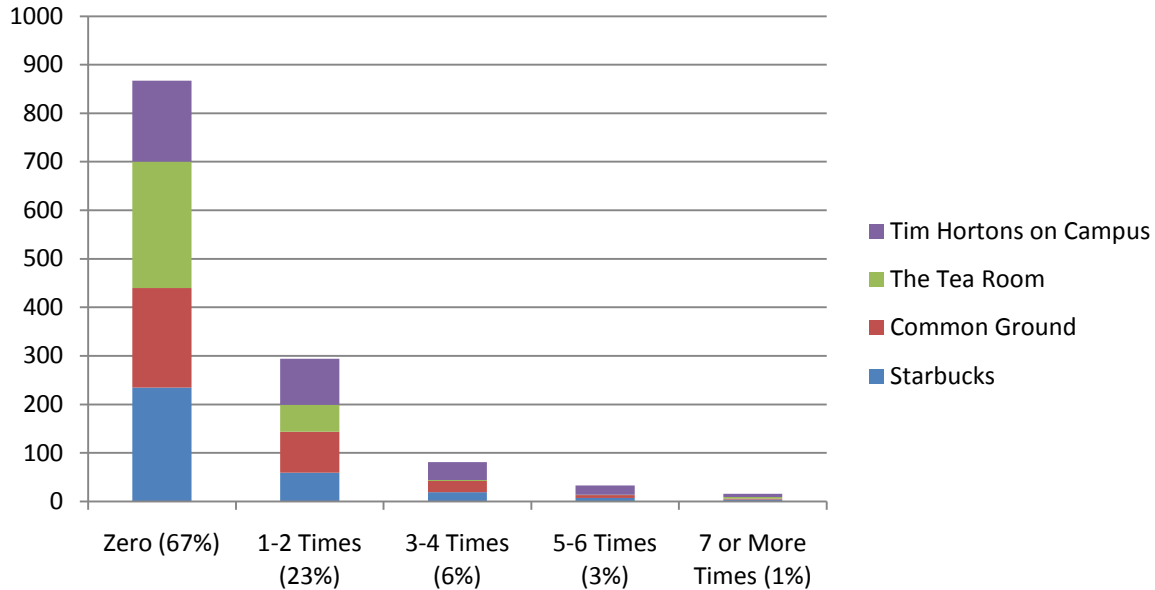
Cash Provided By:	Year 1	Year 2	Year 3	Year 4	Year 5
Net Income	\$ 11,313	\$ 11,870	\$ 12,453	\$ 13,063	\$ 13,701
Depreciation	\$ 3,360	\$ 3,360	\$ 3,360	\$ 3,360	\$ 3,360
<b>Cash from Operations</b>	<b>\$ 14,673</b>	<b>\$ 15,230</b>	<b>\$ 15,813</b>	<b>\$ 16,423</b>	<b>\$ 17,061</b>
Gains on Capital Assets	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Lawyer Fees	\$ -1,152	\$ 48	\$ 48	\$ 48	\$ 48
Transfer Taxes	\$ -7,680	\$ 320	\$ 320	\$ 320	\$ 320
One Time Upgrades	\$ -9,600	\$ 400	\$ 400	\$ 400	\$ 400
<b>Cash from Investing</b>	<b>\$ -18,432</b>	<b>\$ 768</b>	<b>\$ 768</b>	<b>\$ 768</b>	<b>\$ 768</b>
Principal Payments on Loan	\$ -12,257	\$ -12,814	\$ -13,397	\$ -14,007	\$ -14,645
<b>Cash from Financing</b>	<b>\$ -12,257</b>	<b>\$ -12,814</b>	<b>\$ -13,397</b>	<b>\$ -14,007</b>	<b>\$ -14,645</b>
<b>Net Change in Cash Position</b>	<b>\$ -16,016</b>	<b>\$ 3,184</b>	<b>\$ 3,184</b>	<b>\$ 3,184</b>	<b>\$ 3,184</b>

## Exhibit T: Survey Questions – General Demographics



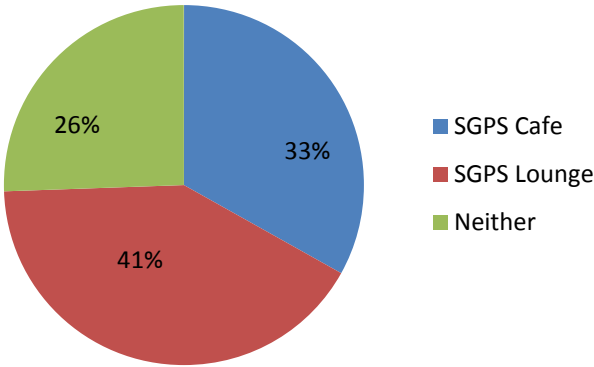
## Exhibit U: Cafe-Going Frequency

1. How many times per week do you go to ____?					
Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Zero	1-2	3-4	5-6	7 or more
Starbucks	235 73%	59 18%	19 6%	7 2%	4 1%
Common Ground	205 64%	85 26%	23 7%	6 2%	2 1%
The Tea Room	260 81%	55 17%	2 1%	1 0%	3 1%
Tim Hortons On Campus	167 51%	95 29%	37 11%	19 6%	7 2%



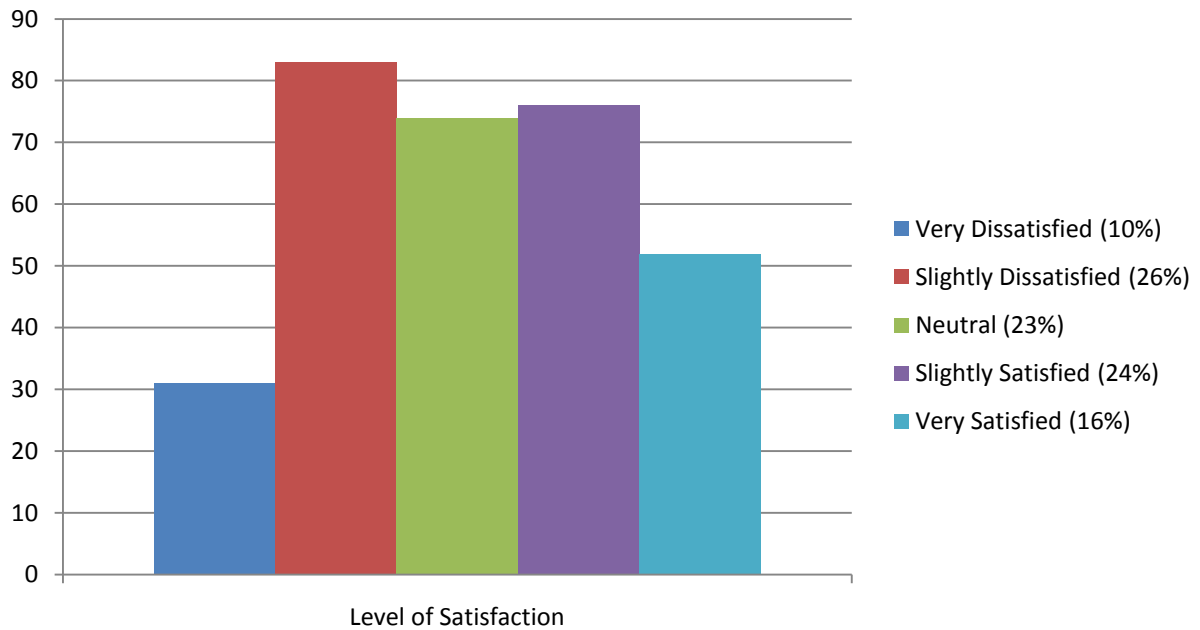
**Exhibit V: Preferred Service**

14. Which of the following services for graduate and professional students would you prefer?		
An SGPS Cafe (similar to Common Ground)	105	33%
An SGPS Lounge with study space and meeting rooms	131	41%
I do not like either option	81	26%
<b>Total</b>	<b>317</b>	<b>100%</b>



## Exhibit W: Time to Find Housing in Kingston

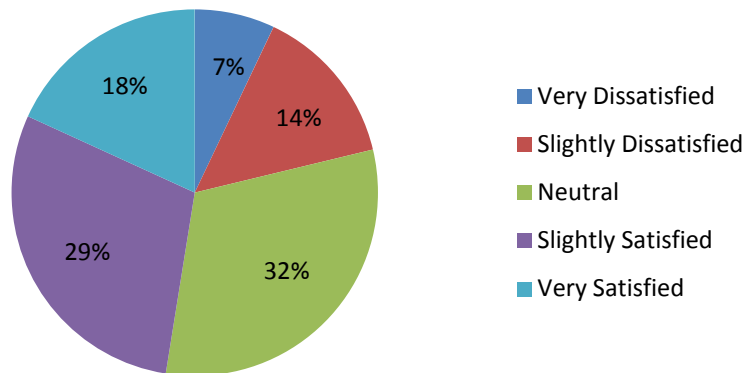
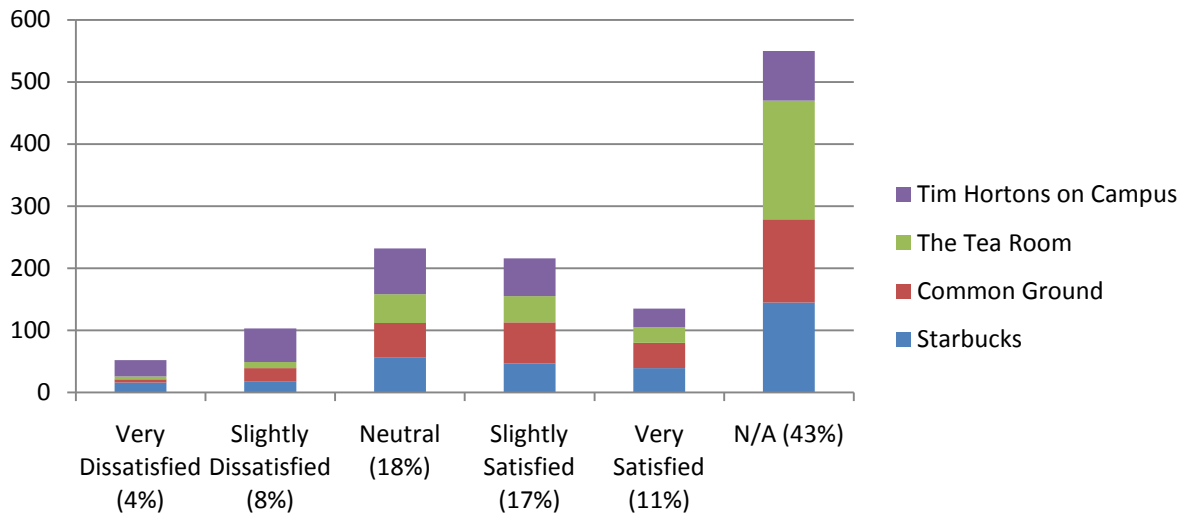
7. Please rate your satisfaction with the amount of time it took for you to find housing in Kingston.		
Very Dissatisfied	31	10%
Slightly Dissatisfied	83	26%
Neutral	74	23%
Slightly Satisfied	76	24%
Very Satisfied	52	16%
<b>Total</b>	<b>316</b>	<b>100%</b>



## Exhibit X: Satisfaction with Variety of Menu Options at Cafes

**3. Please rate your satisfaction of the variety of menu options at \_\_\_\_ .**

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Very Dissatisfied	Slightly Dissatisfied	Neutral	Slightly Satisfied	Very Satisfied	N/A
Starbucks	16 5%	18 6%	57 18%	47 15%	39 12%	145 45%
Common Ground	5 2%	21 7%	55 17%	66 20%	41 13%	134 42%
The Tea Room	5 2%	10 3%	46 14%	42 13%	25 8%	191 60%
Tim Hortons On Campus	26 8%	54 17%	74 23%	61 19%	30 9%	80 25%

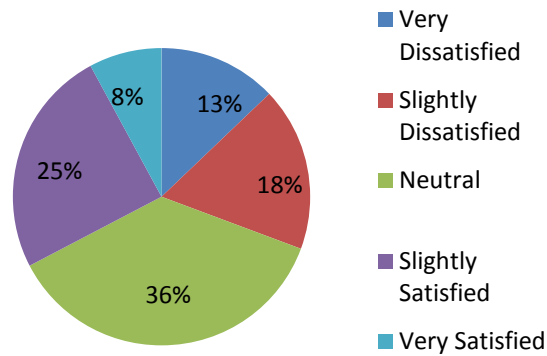
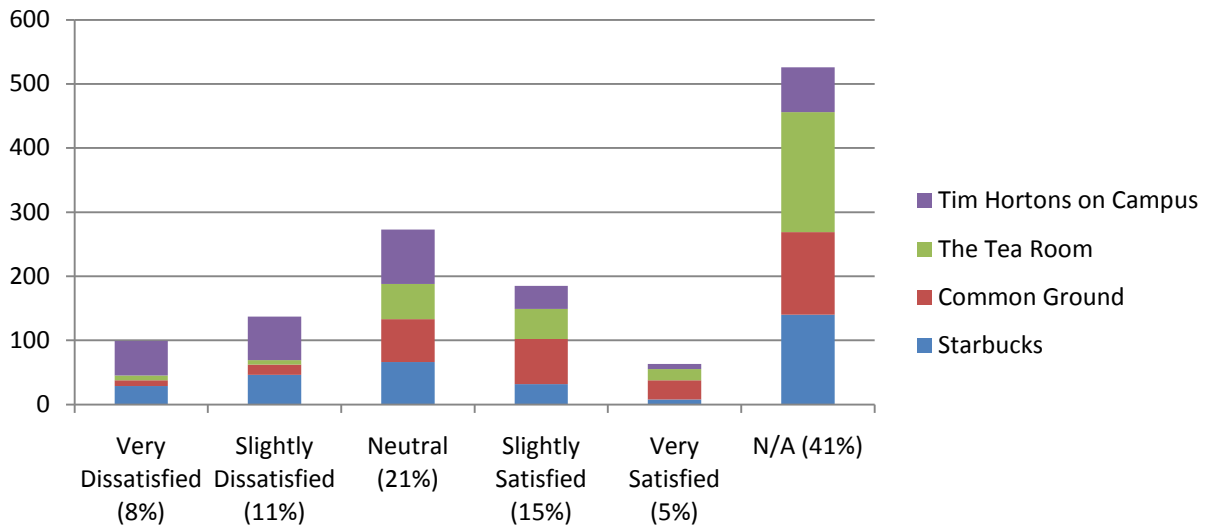


\*1% error due to a variable number of people answering each section of this survey question.

## Exhibit Y: Satisfaction with Healthy Menu Options at Cafes

**4. Please rate your satisfaction with the healthiness of menu options at \_\_\_\_ .**

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Very Dissatisfied	Slightly Dissatisfied	Neutral	Slightly Satisfied	Very Satisfied	N/A
Starbucks	29 9%	46 14%	66 21%	32 10%	8 2%	140 44%
Common Ground	9 3%	16 5%	67 21%	70 22%	30 9%	129 40%
The Tea Room	7 2%	7 2%	55 17%	47 15%	17 5%	187 58%
Tim Hortons On Campus	54 17%	68 21%	85 26%	36 11%	8 2%	70 22%



\*1% error due to a variable number of people answering each section of this survey question.

## Exhibit Z: Payment Amount for Level of Quality

10. Which of the following statements best describes your feelings towards the rent and utilities you are paying given your current housing quality?		
I'm underpaying.	20	6%
I'm paying the right amount.	182	57%
I'm overpaying.	117	37%
<b>Total</b>	<b>319</b>	<b>100%</b>

### Feelings Towards Amount Paid

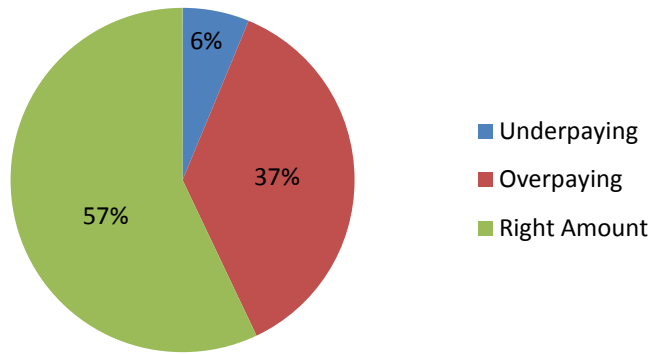
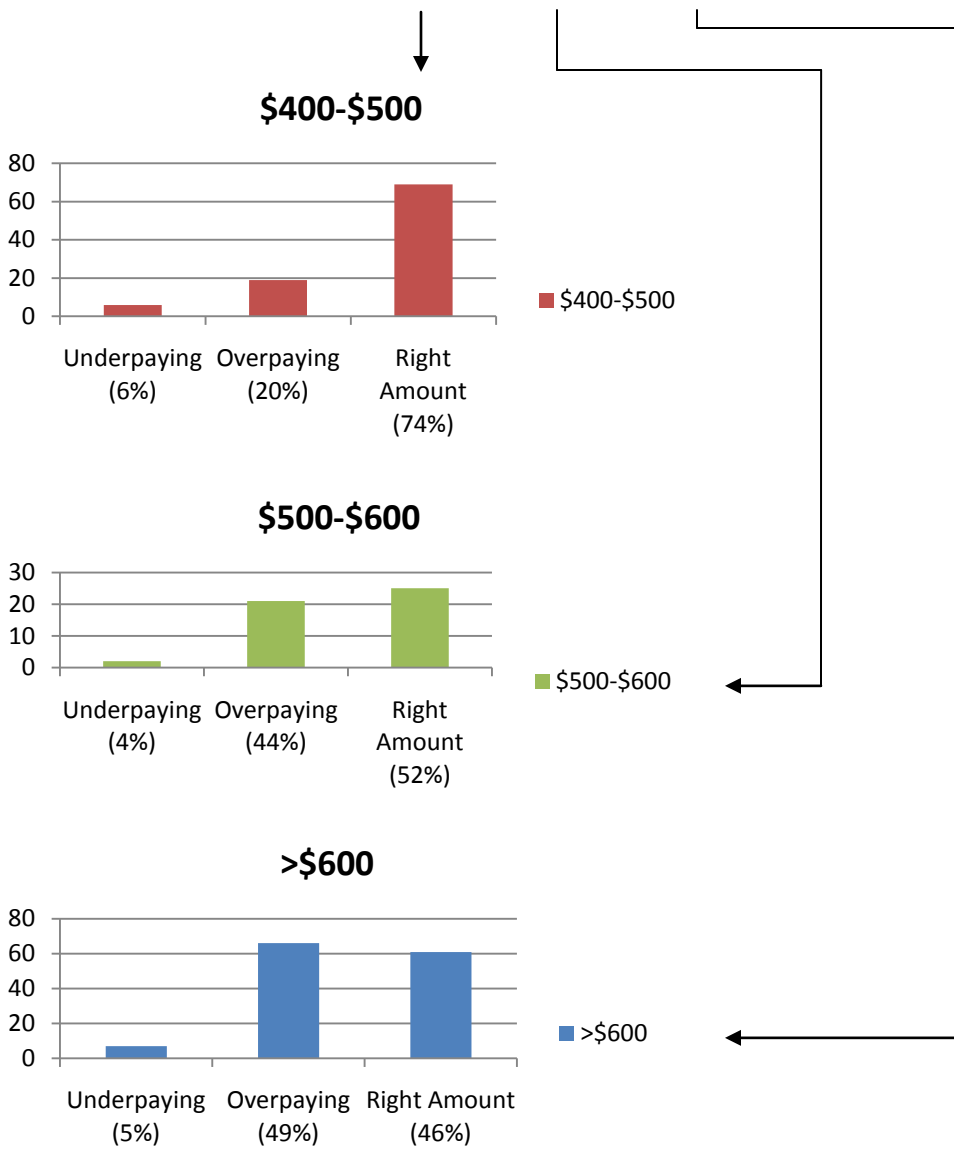
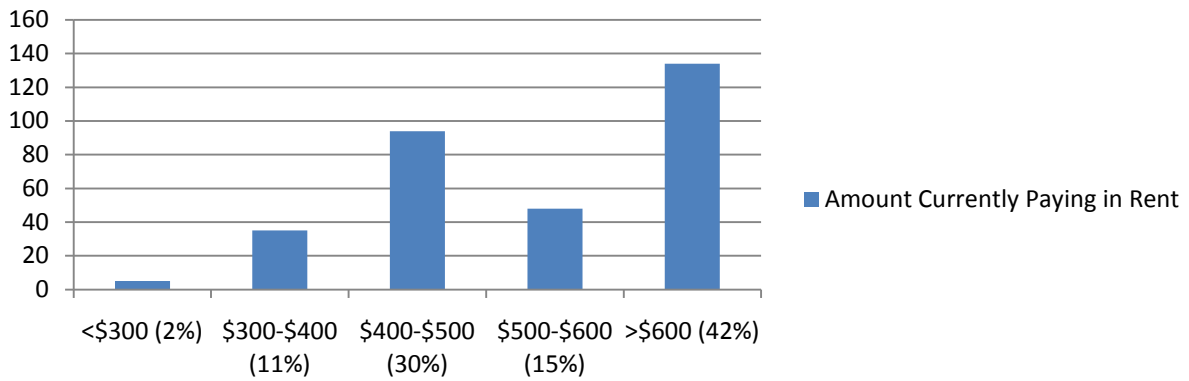


Exhibit Z continued:

### Amount Currently Paying in Rent

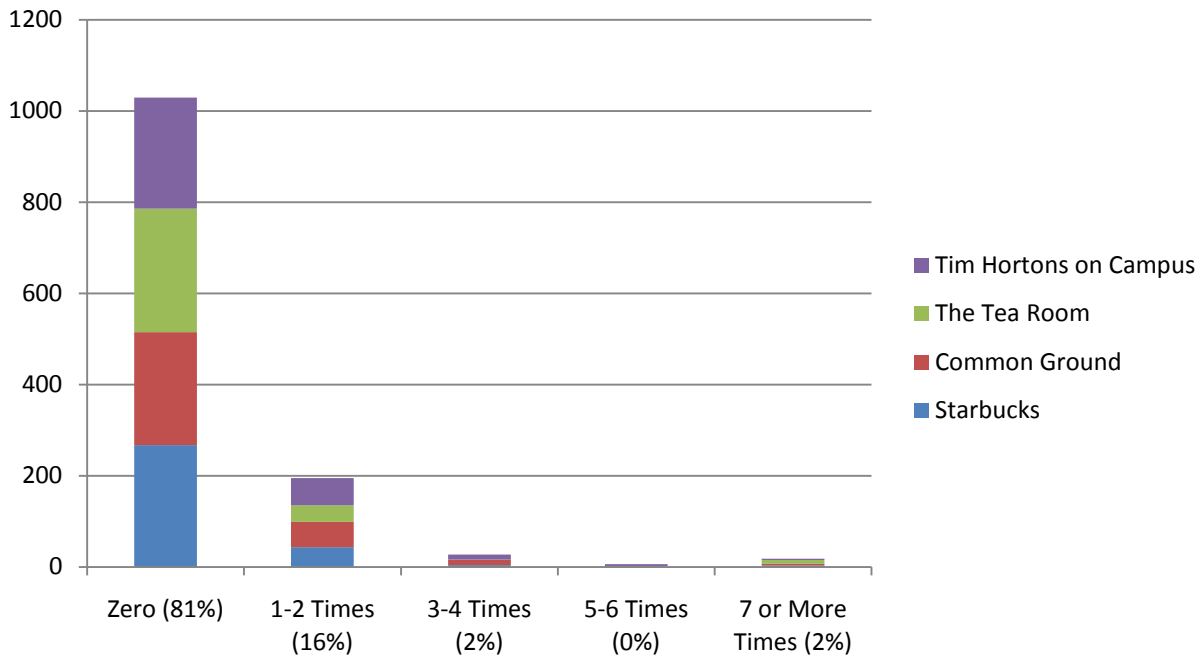


## Exhibit AA: Networking and Community Building

### 5. How many times per week do you meet with other graduate or professional students at \_\_\_\_?

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.

	Zero	1-2	3-4	5-6	7 or more
Starbucks	267 84%	43 14%	4 1%	1 0%	3 1%
Common Ground	248 78%	56 18%	11 3%	0 0%	4 1%
The Tea Room	271 85%	36 11%	1 0%	1 0%	8 3%
Tim Hortons On Campus	243 76%	60 19%	11 3%	4 1%	3 1%

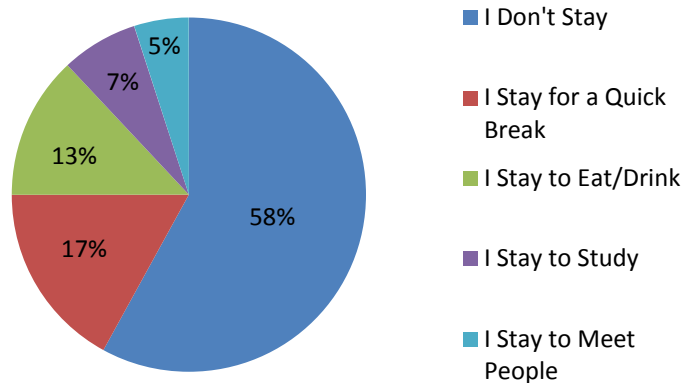
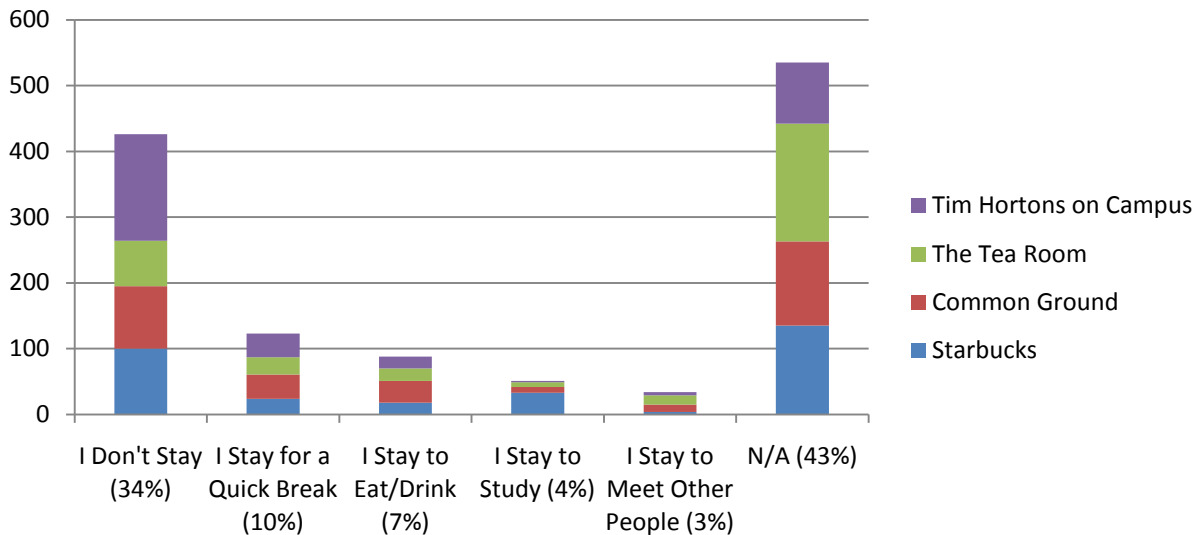


\*1% error due to a variable number of people answering each section of this survey question.

## Exhibit AB: Behaviour When Visiting Cafes

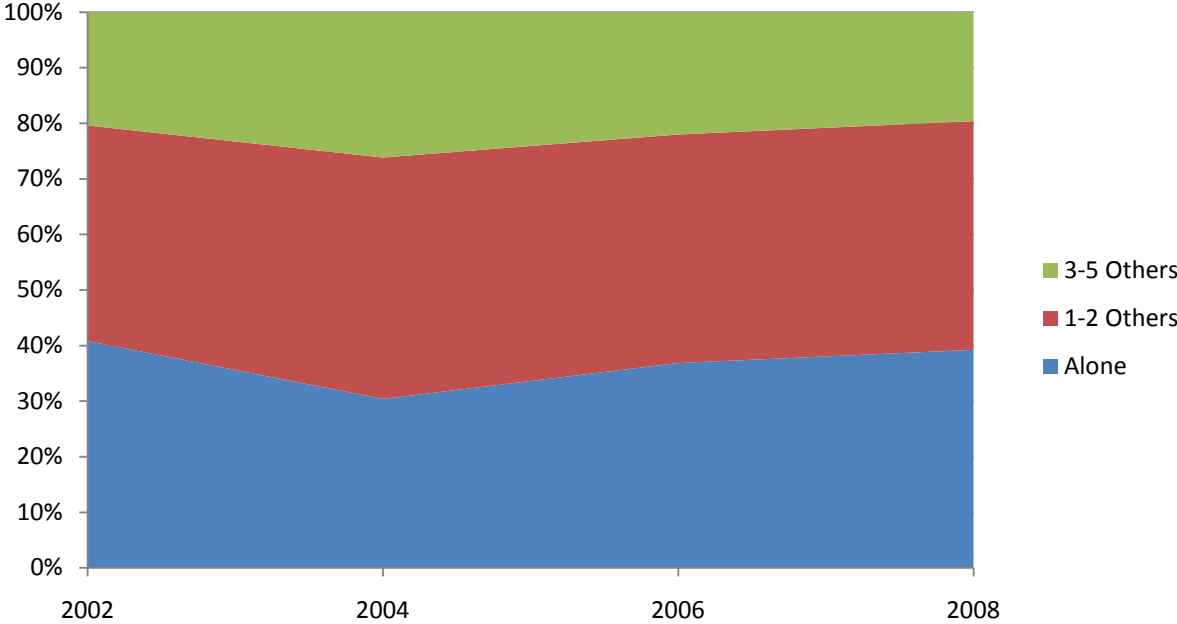
**6. Please click on the following statement that best describes your behaviour when visiting \_\_\_\_\_ .**

Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	I don't stay.	I stay for a quick break.	I stay to eat/drink.	I stay to study.	I stay to meet other people.	NA
Starbucks	100 32%	24 8%	18 6%	33 11%	4 1%	135 43%
Common Ground	95 30%	37 12%	33 11%	9 3%	11 4%	128 41%
The Tea Room	69 22%	26 8%	19 6%	7 2%	14 4%	179 57%
Tim Hortons On Campus	162 51%	36 11%	18 6%	2 1%	5 2%	93 29%



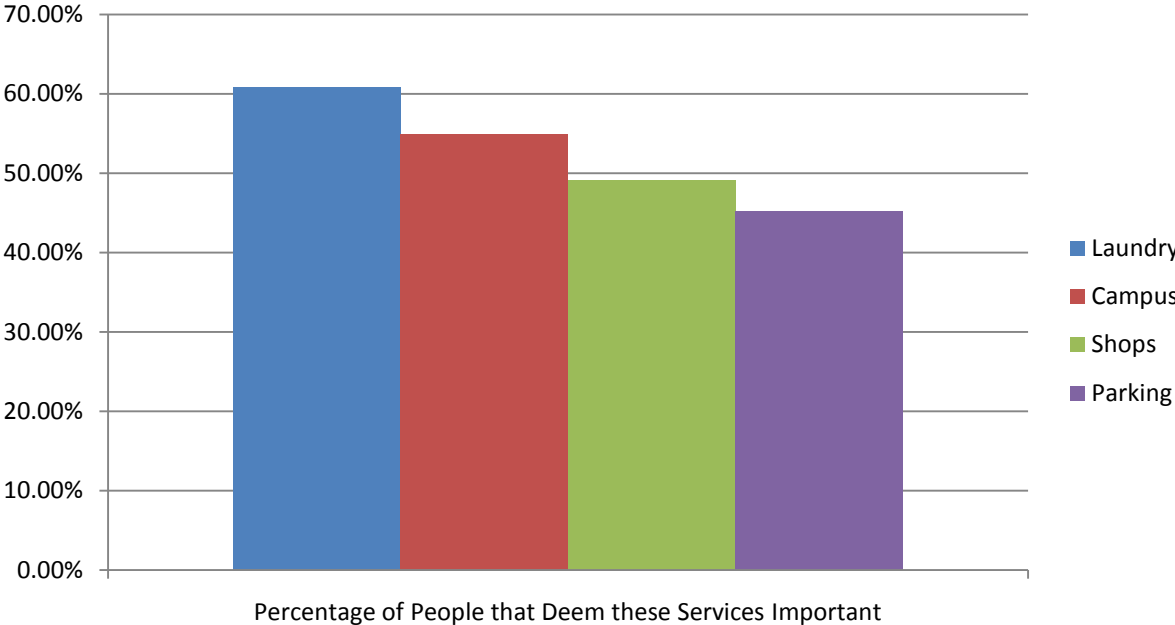
\* 1% error due to a variable number of people answering each section of this survey question.

**Exhibit AC: Housemate Preferences (From 2008 SGPS Survey)**

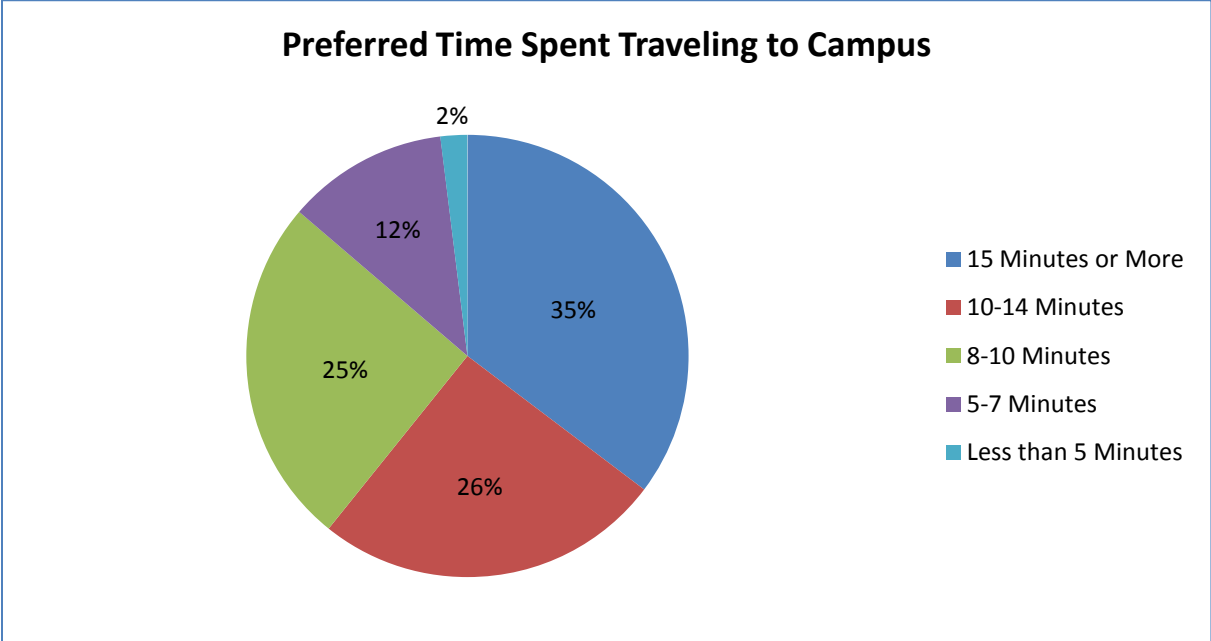
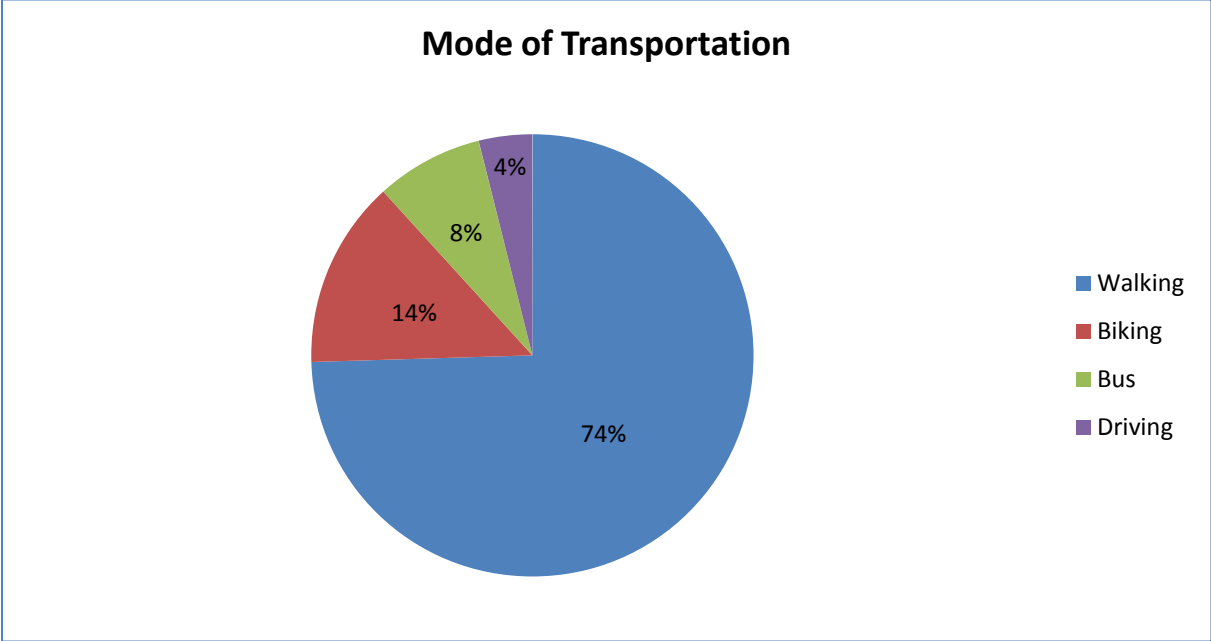


\*Note: 2006 data was not available; averages for the other years were used.

**Exhibit AD: The Importance of the Proximity of Services in Housing  
(From 2008 SGPS Survey)**

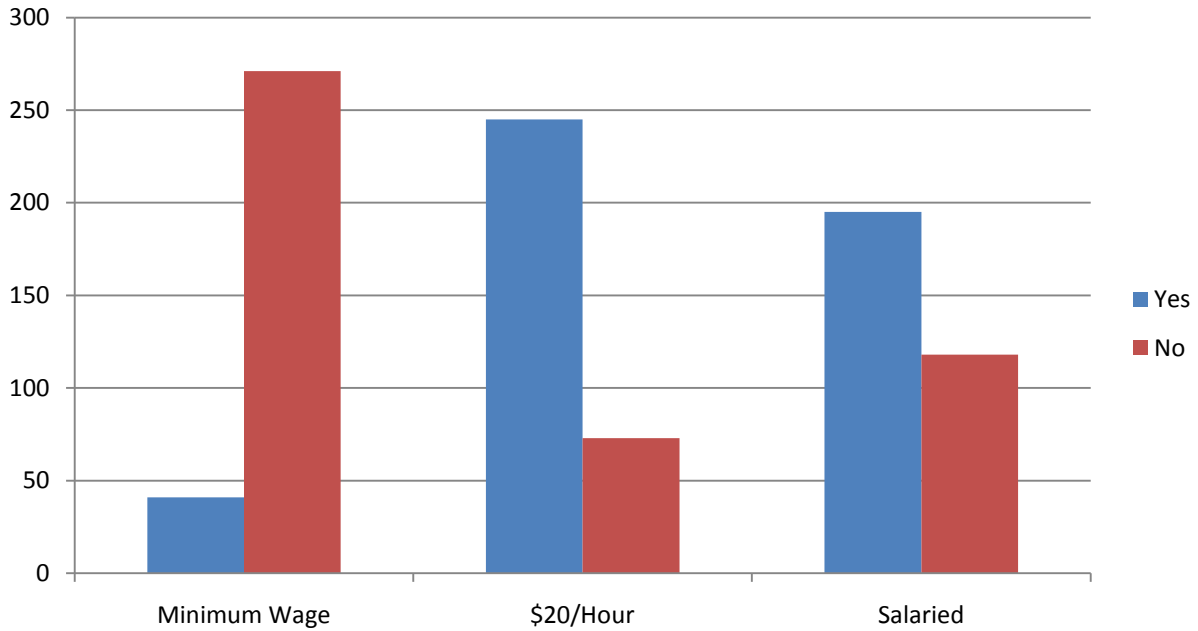


**Exhibit AE: Transportation Preferences (From 2008 SGPS Survey)**



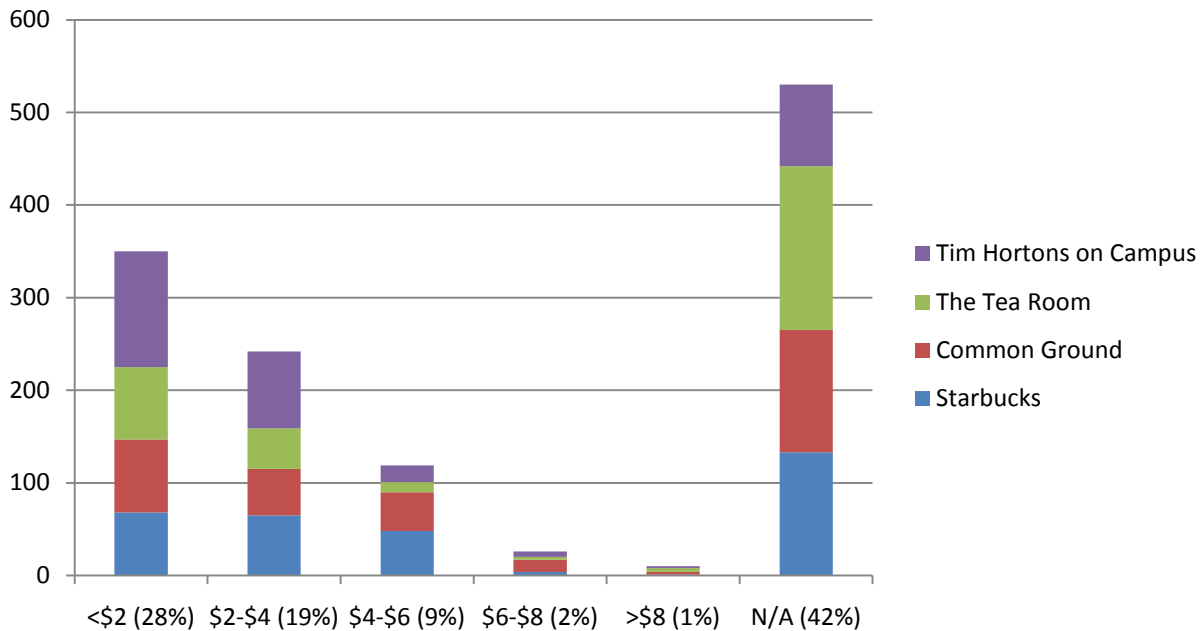
## Exhibit AF: Employment Preferences

11. If it was offered by SGPS, would you take up the following type of employment?		
Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	Yes	No
Minimum Wage	41 13%	271 87%
\$20/hour	245 77%	73 23%
Salaried	195 62%	118 38%



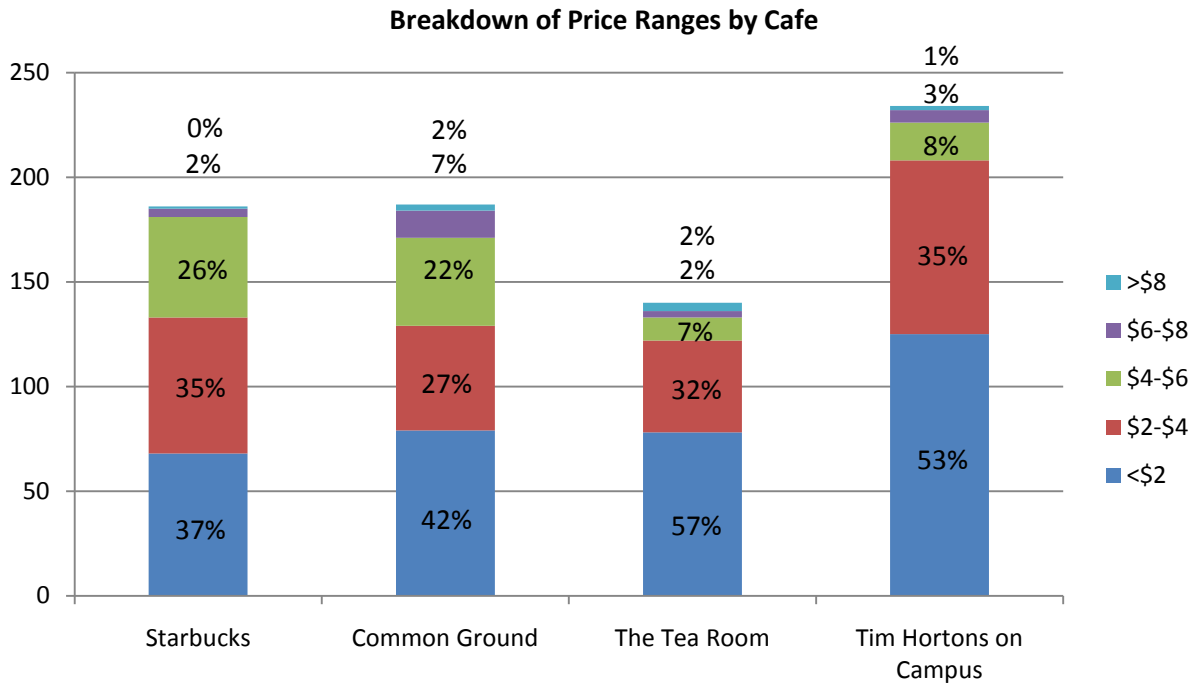
## Exhibit AG: Average Spend per Visit to a Cafe

2. How much money do you spend on average per visit to ____?						
Top number is the count of respondents selecting the option. Bottom % is percent of the total respondents selecting the option.	<\$2	\$2-\$4	\$4-\$6	\$6-\$8	>\$8	N/A
Starbucks	68 21%	65 20%	48 15%	4 1%	1 0%	133 42%
Common Ground	79 25%	50 16%	42 13%	13 4%	3 1%	132 41%
The Tea Room	78 25%	44 14%	11 3%	3 1%	4 1%	177 56%
Tim Hortons On Campus	125 39%	83 26%	18 6%	6 2%	2 1%	88 27%



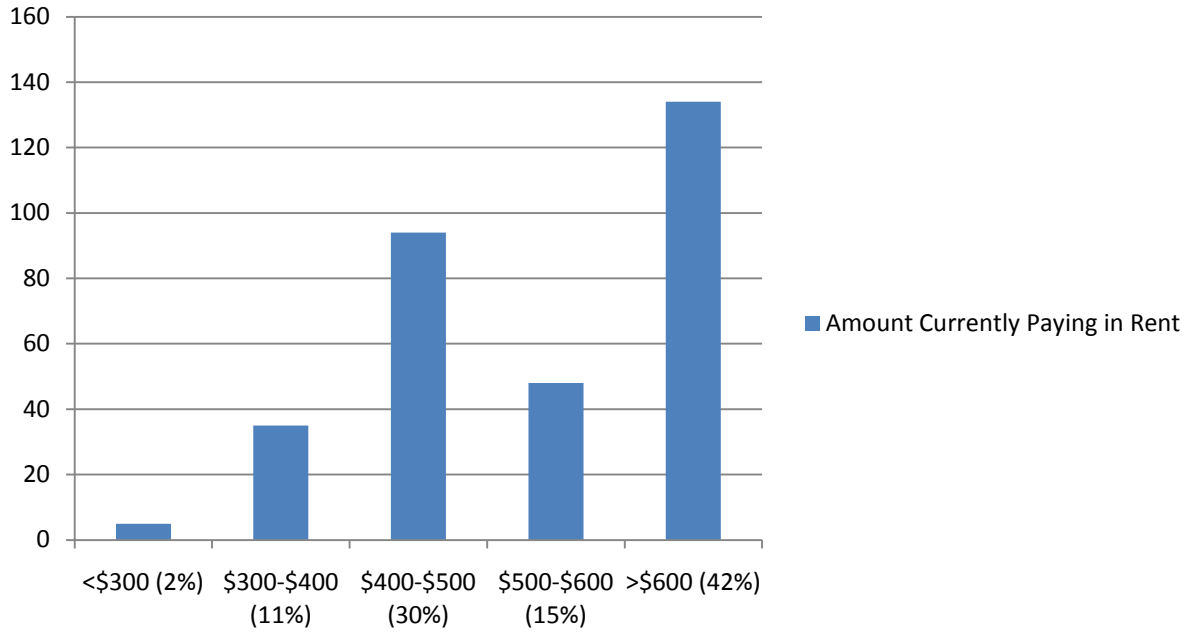
\*1% error due to a variable number of people answering each section of this survey question.

Exhibit AG continued:



## Exhibit AH: Amount Currently Paying Per Month in Rent

8. How much do you currently pay per month in rent? (excluding utilities)		
<\$300	5	2%
\$300-\$400	35	11%
\$400-\$500	94	30%
\$500-\$600	48	15%
>\$600	134	42%
<b>Total</b>	<b>316</b>	<b>100%</b>



**Exhibit AI: Labour Analysis – Cost Savings Calculations**

<b>TABLE 2-C: POTENTIAL LABOUR COST SAVINGS</b>				
<b>Cafe X</b>	<b>Employees</b>	<b>Supervisors</b>	<b>Managers</b>	<b>Total</b>
Current # of Staff	37	24	5	<b>66</b>
New # of Staff	4	2	5	<b>11</b>
<b>Common Ground</b>	<b>Employees</b>	<b>Supervisors</b>	<b>Managers</b>	<b>Total</b>
Current # of Staff	112	0	6	<b>118</b>
New # of Staff	11	0	6	<b>17</b>
<b>Non-Payroll Labour Cost (NPL)</b>	\$ 22,941			
<b>NPL Cost/Person</b>	\$ 194			
<b>New NPL Cost</b>	\$ 3,305			
<b>NPL Cost Savings</b>	85.59%			
<b>Labour Cost Savings</b>	6.07%			

## Exhibit AJ: Labour Analysis – Proposed Change in Shift Schedule

<b>Legend</b>
Supervisor
Employee

CURRENT SHIFT SCHEDULE FOR CAFE X					
	MON	TUE	WED	THU	FRI
<b>7:45-11:10</b>	S1	S6	S11	S16	S21
	E1	E11	E21	E31	E4
	E2	E12	E22	E32	E5
	E3	E13	E23	E33	E6
<b>11:00-2:10</b>	S2	S7	S12	S17	S22
	E4	E14	E24	E34	E7
	E5	E15	E25	E35	E8
* 11:00-3:00	* E6	* E16	* E26	* E36	E9
<b>2:00-5:10</b>	S3	S8	S13	S18	S23
	E7	E17	E27	E37	E10
	E8	E18	E28	E1	E11
<b>5:00-8:10</b>	S4	S9	S14	S19	
	E9	E19	E29	E2	
<b>8:00-11:30</b>	S5	S10	S15	S20	
	E10	E20	E30	E3	

PROPOSED SHIFT SCHEDULE FOR CAFE X					
	MON	TUE	WED	THU	FRI
<b>7:45-11:10</b>	S1	S1	S1	S1	S1
	E1	E1	E1	E1	E1
	E2	E2	E2	E2	E2
	E3	E3	E3	E3	E3
<b>11:00-2:00</b>	S1	S1	S1	S1	S1
	E1	E1	E1	E1	E1
	E2	E2	E2	E2	E2
	E3	E3	E3	E3	E3
<b>2:00-5:00</b>	S1	S1	S1	S1	S1
	E1	E1	E1	E1	E1
	E2	E2	E2	E2	E2
<b>4:50-8:00</b>	S2	S2	S2	S2	
	E4	E4	E4	E4	
<b>8:00-11:30</b>	S2	S2	S2	S2	
	E4	E4	E4	E4	

## **Exhibit AK: Assumptions and Rationale – SGPS Cafe**

### **Financial Analysis of Current Cafes**

1. There were large reporting differences between financial statements gathered from Common Ground and other student-run, on-campus cafes.
2. AMS allocates rent (as a JDUC recover cost) and administration costs to Common Ground. SGPS would be subject to only the JDUC recovery cost.
3. Common Ground rent and a large percentage of administration costs are allocated by AMS. The rent portion is a JDUC recovery cost allocation that SGPS cafe would be subject to if they moved into that space.
4. Incomplete cost breakdowns within specific categories (i.e. types of depreciation) for one cafe can be assigned using cost breakdowns of another cafe.
5. Total costs are displayed where more detailed information could not be provided.
6. Weighted averages of financial data are allocated using 15%, 35%, and 50% of the past three years (these numbers can be changed, affecting projected revenues and costs in the financial excel model).
7. A revenue multiplier (Cafe X Revenue/Cafe Y Revenue) can be used to make comparisons between data of different on-campus cafes.
8. SGPS does not pay income taxes.
9. SGPS does not pay interest because a loan is not used to finance the SGPS cafe.

### **Financial Projections of SGPS Cafe**

1. Profit Forecasts
  - a. SGPS cafe would be located in the JDUC where Common Ground used to operate.
  - b. SGPS cafe would not operate during the summer.
  - c. Future revenues and costs for SGPS cafe are correlated with revenues and costs of current on-campus, student-run cafes.
  - d. Cost of goods sold, administration, labour, maintenance, and materials & supplies are costs variable to sales revenue.
  - e. Advertising & entertainment, depreciation, and rent are fixed costs.
  - f. Cost of goods sold, advertising, labour, and materials & supplies are equally correlated with different cafes.
  - g. Advertising costs are doubled in the first year to increase brand awareness.
  - h. Depreciation, maintenance, and rent costs are directly correlated to that of Common Ground.
  - i. From Year 1 to Year 2, there is a 50% decrease in administration and advertising & entertainment costs.
  - j. From Year 2 to year 3, there is a 5% decrease in COGS, 5% increase in rent, and 50% increase in repairs and maintenance.

*Exhibit AK continued:*

2. Labour Analysis
  - a. SGPS can hire full-time employees to work for current wages at student-run cafes.
  - b. Number of workers and shift schedule for 'Cafe X' were given to QBC.
  - c. A hypothetical shift schedule on any given week is constructed to illustrate potential cost reductions (number of workers and shift schedule for 'Cafe X' was given to us).
  - d. There is a linear relationship between staffing requirements of different on-campus student-run cafes.
  - e. Non-payroll labour costs are a direct multiple of the number of staff on payroll.
3. Start-Up Costs
  - a. Two managers are required three months in advance of the cafe launch to set up operations.
  - b. Average expected life of capital assets is similar to that of other on-campus cafes.
  - c. Start-up costs include 1 month of inventory, office supplies, 50% of Year 1 advertising, capital purchases, pre-launch salaries, hiring costs, start-up materials, and 2 months of rent.
4. Break-Even Analysis
  - a. Net income is constant after three years and is pro-rated within each year.
5. Cash Flow Analysis
  - a. Accounts receivable are 0% of revenue.
  - b. Accounts payable are 10% of revenue.
  - c. There is a 75% resale value of assets that have resale potential.

## Exhibit AL: Assumptions and rationale – Housing Authority

### Mortgage Calculator

1. Mortgage payments are made monthly

### Basic Financials

1. Parking
  - a. Each parking spot can be rented at a rate of \$50 per year
  - b. All parking spots can be rented for all 12 months of the year
2. Laundry
  - a. There are both washing machines and dryers
  - b. The rate per use of each machine is \$1.50
  - c. Each tenant will do two loads of laundry per week
  - d. There are four weeks in each month
  - e. There will be 100% usage during the school year and 50% usage during the four summer months, averaging to 10 months per year at 100% utilization
3. Lawyer Fees
  - a. Fixed at \$1,200 per property
  - b. Based on historic fees received from Student Housing Cooperative
  - c. Allowances made for Pessimistic and Optimistic scenarios
4. Transfer Taxes
  - a. Fixed at \$8,000 per property
  - b. Based on historic rates received from Student Housing Cooperative
  - c. Allowances made for Pessimistic and Optimistic scenarios
5. One-time Upgrades
  - a. Involve repairs and purchases made when the property is purchased
  - b. Includes appliances, furniture, windows and doors, roofing, etc.
  - c. Based on historic costs provided by Student Housing Cooperative
  - d. Prorated to the total value of the property
  - e. Achieve same level of quality as Student Housing Cooperative
6. Utilities
  - a. Based on average costs as reported by Student Housing Cooperative, prorated to the total value of the property.
  - b. Adjusted for number of rooms: the more tenants, the lower the per-person cost
  - c. Landlord pays all utilities unless this number is zero, in which case tenants pay these fees
  - d. Summer months factored in with much lower utility costs
7. Property Taxes
  - a. Almost fixed at \$4,000 - \$5,000 annually, per property

*Exhibit AL continued:*

- b. Based on historic rates provided by Student Housing Cooperative
- c. Allowances made for Pessimistic and Optimistic scenarios
- 8. Property Management and Administrative
  - a. Based on half of one month's rent revenue per lease signing or renewals
  - b. Rate is 8% of total rent collected
  - c. All repair and maintenance expenses are invoiced to landlord
  - d. This information is based upon quotes obtained from Cypress & Associates Property Management in Kingston
- 9. Annual Upgrades and Maintenance
  - a. Based on historic costs incurred by Student Housing Cooperative
  - b. Allowances made for Pessimistic and Optimistic scenarios
- 10. Insurance
  - a. Based on rates provided by Student Housing Cooperative
  - b. Prorated to total property value

**Income Statement**

- 1. Depreciation
  - a. The building is depreciated using the straight line method over 50 years
  - b. The building is worth one fifth of the entire property value
  - c. Based on depreciation rates used by Student Housing Cooperative
- 2. Lawyer fees, transfer taxes, and one-time upgrades are amortized over 25 years