

**The Greater Boston 2007 Affordable Housing Development Competition**  
**Housing Finance Issues: Development Costs in Affordable Residential Projects**

March 7, 2007

Presented by Louise Elving, Principal, VIVA Consulting. [www.vivaconsult.com](http://www.vivaconsult.com)

**Summary of Typical Residential Development Costs**

*Not all projects will have all these expenses, but these are typical ones.*

**Acquisition Costs**

Purchase price of site (or leasing costs if using a ground lease)  
Financing costs of purchase price, if relevant, such as interest

**Hard Costs - construction**

**Construction of Buildings**

Special green building elements, e.g., solar panels, windmills, special windows, etc.  
Heating & cooling monitoring system, if used

**Sitework**, e.g., parking, roads, sidewalks, site lighting, landscaping, benches, signage, soils work, etc.

**Costs to prepare or remediate the property:**

Demolition of existing buildings  
Environmental remediation: both soils clean-up and remediation of existing buildings, if any

**Construction Contingency** - at least 10% during initial project planning.

At closing, 5% for new construction; 10%+ for rehab projects.

**Soft Costs** - sometimes called "General Development Costs"

**Professional fees and services**

Architecture and Engineering  
Design and construction administration by architect  
Civil or site engineering  
Specialists: wetlands, conservation, historic, green building, utility analysis, etc.  
Possible review of plans or details by experts, engineer, or Owner's construction rep.  
Graphics for public/community presentations, e.g., models, renderings, drawings, etc.  
Site surveys: boundary survey and topographic surveys.  
Survey of each completed unit for homeownership sales  
Geotechnical exploration for new construction (soils borings, etc.)  
Environmental Engineer (to prepare 21E report, help hire remediation contractors, oversee their work, prepare final reports & any DEP submissions needed)  
Construction owner's representative or clerk of the works  
Legal fees  
Both owner's attorney's fees: lenders' &/or investors' legal fees  
Accounting & audit for each year of development  
Development and/or financial consultant

**Permits and fees**

Public permit filing fees  
E.g., Zoning, Planning, Conservation Commission, Building Permit, etc.  
Utility connection fees (gas, electricity, water & sewer, cable, internet)  
Inclusionary fees charged by municipality to fund affordable housing

**Financial related costs**

Predevelopment loan interest if any funds borrowed pre-construction  
Financing application fees for all sources  
Financing closing fees  
Construction loan interest  
Inspecting engineer for construction lender(s)

**Development carrying costs**

Insurance during the development period  
Real estate taxes during development period  
Carrying costs during sales period if homeownership project  
e.g., interest, taxes, insurance, utilities & maintenance on unsold units **AND/OR:**  
Initial operating costs before full occupancy for rental project

**Marketing and appraisal costs: FF&E**

Appraisal of site and/or your sales product  
Market study to verify rents and/or sales prices  
Marketing costs  
Brokers or realtors fees for sales project  
Costs of personnel to do rent-up  
Advertising, web site, model unit furnishings, etc.  
Counseling and post-occupancy support for affordable home buyers  
Closing costs for unit sales  
FF&E: Furniture, fixtures & equipment for common areas, management office, & maintenance

**Soft Cost Contingency**

At least 5% of above costs until budget is fixed; at closing, 2-3% of above costs

**Reserves**

E.g., Operating reserves in rental projects, reserves for social services in special needs housing

**Developer fee or profit and overhead**

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**Typical Pre-Development Costs in Affordable Housing Projects**

*This list includes pre-development costs which are incurred AND must be paid prior to full financing. Other costs may be incurred but payment postponed until initial closing.*

**Acquisition**

- Perhaps the full price or a downpayment
- Perhaps the cost of an option
- Perhaps carrying costs to the seller if it finances your purchase

**Hard costs - construction**

- If doing new construction, likely no pre-development expense on the buildings or site.
- If doing rehab, may have costs for invasive testing of the building(s).
- Might have to do early demolition of buildings.
- Might have to do early environmental remediation.

**Soft costs**

**Professional fees and services**

- Architecture and Engineering: Need to pay for design & engineering of project pre-closing.
  - Civil or site engineering
  - Specialists: wetlands, conservation, historic, green building, utility use analysis, etc.
  - Possible review of plans or details by experts, engineer, or Owner's construction rep.
  - Graphics for public/community presentations, e.g., models, renderings, drawings, etc.
- Site surveys: boundary and topographic surveys needed for design
- Geotechnical exploration (soils borings, etc.) needed for design if new construction or extensive site work
- Environmental Engineer needs to prepare 21E report and possibly do testing pre-construction; must be done so scope is known & can be budgeted. May have to do DEP filings.
- Legal fees
  - May need to pay before the closing, but may be partially deferred until closing thru negotiation.
- Accounting & audit: If pre-development period is longer than 1 year, need this pre-closing.
- Development and/or financial consultant

**Permits and fees**

- Public permit filing fees: Generally, need all but building permit during pre-construction period.
  - E.g., Zoning, Planning, Conservation Commission, etc.

**Financial related costs:**

- Predevelopment loan interest if any funds borrowed pre-construction.
- Financing application fees

**Pre-Development carrying costs**

- Insurance during pre-development period if you own the site (property & liability)
- Real estate taxes during pre-development period if you own the site

**Marketing and appraisal costs; FF&E**

- Appraisal of site may be required by funders
- Market study may be required by funders, or you may need to verify rents or sales prices

**Developer fee or profit**

- You will not be able to get this during pre-development period.