
CHAPTER 7. COST ESTIMATION - SUBSTANTIAL REHABILITATION

- 7-1 General. In developing the Cost Estimate for substantial rehabilitation of a project follow the instructions of other Chapters of this handbook except as modified by the following.
- 7-2 Processing Stages. The Field Office may allow the sponsor to combine the processing stages. When stages are combined, instructions will be combined as appropriate.
- A. Preapplication. Cost personnel will attend the preapplication conference where sponsor discusses the rehabilitation proposal.
- 1) Current physical characteristics and condition of the project.
 - 2) The rehabilitation proposed.
 - 3) Tentative per unit cost.
- B. Feasibility.
- 1) Exhibits:
 - a) Application.
 - b) Project location map and survey or site plan.
 - c) Drawings or sketches of the existing buildings and description of the proposed rehabilitation, including any post-rehabilitation sketches.
 - d) Sponsor's cost estimate for proposed rehabilitation.
 - 2) Participate in a joint inspection of the project to compare the sponsor's exhibits with on-site conditions to determine:
 - a) Actual extent of rehabilitation.
 - b) Character of structure and materials.
 - c) Type of benchmark data necessary for estimate.
 - 3) Assist the Design Representative in preparing HUD work write-up.
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- (7-2) 4) Prepare a preliminary estimate based on HUD work write-up.
- a) Include an amount for contingency reserve.
 - b) Estimate the date of the start of rehabilitation and length of the rehabilitation periods

C. Conditional Commitment.

1) Exhibits:

- a) Application.
 - b) Preliminary drawings and/or specifications as required by the HUD work write-up.
 - c) Sponsor's detailed cost breakdown.
 - d) Owner-Architect Agreement (if professional services are required).
 - e) Other cost exhibits required by the work write-up.
- 2) Make the HUD estimate of rehabilitation cost.
- a) Estimate cost of land improvements and supplemental estimates on Form FHA 2325.
 - b) Estimate cost of the structural trade items on Form FHA 2326-A.
 - c) Summarize cost of land improvements, structures and supplemental estimates on Form FHA 2326. include applicable fees.
- 3) Estimate the contingency reserve percentage and enter in Section O of Form HUD-92264.
- 4) Estimate starting date and length of the rehabilitation period and enter the number of months in Section G of Form HUD-92264.

D. Firm Commitment. Review the application, final drawings and or specifications if required by HUD work write-up, and the Form FHA 2328.

- 1) Confirm previous cost conclusions.

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- (7-2) 2) Develop a new estimate if exhibits reveal significant changes that affect cost.
- 3) Combine all procedures in firm processing if conditional commitment is skipped.
- 7-3 Bench Mark Costs. Use bench mark data for trade items in costing-out HUD work write-up.
- A. Project the cost of trade items to the estimated start of rehabilitation.
- B. Consider in the trade items the cost of repair and/or removal prior to rehabilitation.
- 7-4 Allowances and Fees.
- A. Use data that reflects the risk and responsibility inherent in rehabilitation and considers the location of project.
- B. For projects entitled to a Builder's and Sponsor's Profit and Risk Allowance, do not include profit. Assume a normal builder's profit in computing fees and bond premium.
- 7-5 Rehabilitation Time. Estimate from a graph of available data on the actual length of time required to rehabilitate projects. Include adjustment of time for demolition as repair and rehabilitation cannot begin until demolition is complete.
- 7-6 Demolition. Estimate the cost of demolition in the work write-up considering the salvage value of material or equipment.
- A. Include demolition cost directly related to refurbishing structures and land improvements (site preparation) in the applicable trade item cost.
- B. Show demolition costs for total interior removal (gut job) within exterior walls in Division 13, Special Construction.
- C. For total removal of an existing structure (footings, foundations, utilities, etc.), disposal of debris, fill and compaction, describe and show the cost on Form FHA 2326 and enter in Section O of Form HUD-92264 and interline in Section g, line 36, if part of construction contract.
- 1) Include general requirements, overhead and the profit.
- 2) Where demolition cost is a lump sum bid by a general contractor or subcontractor, note in the file.
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- (7-6) 3) Keep worksheets describing all items and costs in the project cost binder.
- 4) Form FHA 2328 shall include a description and cost of total demolition if part of construction contract.

7-7 Contingency Reserve.

- A. Estimate a percentage of 0 to 10 percent depending on:
 - 1) Existing condition of the project.
 - 2) Extent of rehabilitation.
 - 3) Experience and financial capacity of the sponsor and contractor.
- B. Enter the recommended amount and percentage of the contingency reserve in Section 0 of Form HUD-92264.

7-8 Rehabilitation Cost Not Attributable To Residential Use. Use the format In Figure 1, completing the mathematical computations in items 1, 2, and 3, and send to Valuation.

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Figure 1

REHABILITATION COST NOT ATTRIBUTABLE TO RESIDENTIAL USE

- 1. Total Rehab Cost
(Without fees -Lines G 36c. + G 41.) ** \$_____
- 2. Rehab Cost Not Attributable
(Dollar amounts without fees) ** \$_____
- 3. Ratio of Not Attributable
Project Not Attributable Square Feet
_____ sq. ft. divided by Total
Project Gross Square Feet _____ sq. ft. ** = _____%
- 4. "As-Is" Not Attributable
Total "As-Is" (Land and Structures)
\$_____ X Ratio from #3 _____ % = \$_____

5. Total Cost Not Attributable
 "As-Is" Not Attributable (#4) \$ _____
 and Rehab Cost Not Attributable (#2)
 \$ _____ = \$ _____
6. Cost Without Fees
 Total Rehab Cost Without Fees \$ _____
 (From #1) + Total "As Is" Value \$ _____
 (From Line 73. of Form FHA 2264) = Total = \$ _____
7. The Percentage Not Attributable
 Divide Total Rehab Cost Not Attributable
 (#5) \$ _____ by Total Cost Without
 Fees (#6) _____ %
8. Line G 74.
 Total Estimated Replacement Cost of
 Project* \$ _____ X
 Percentage Not Attributable (#7) _____ % = \$ _____

* The Total Estimated Replacement Cost must be that developed by a Replacement Cost Formula. Cost Not Attributable must not be adjusted if the Total Estimated Replacement Cost later changes.

** From Cost Analyst