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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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.
(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.
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.

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

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