



# Creating a Project Development Budget

*This worksheet is designed to help organizations estimate the total costs of their real estate project. The worksheet provides a step-by-step guide to creating a budget—a blank budget template is attached, which the IFF can email to you as a Microsoft Excel document with formulas.*

The attached development budget template is intended to encourage organizations to think through all the expenses associated with a real estate development project—from acquiring a building or vacant land through renovation or new construction of a facility—and to estimate all the costs associated with their project. With a comprehensive understanding of all the costs of a development project, your organization can determine the true feasibility and affordability of the project. Adjustments can be made to the project scope to bring the budget in line with your organization's means. A development budget is an ever-changing document until you have final bids from a contractor. It is critical to continuously update the budget as estimates become actual costs and to balance the total project costs with the total funds you have available to complete the project. The tendency is for all parties to low-ball estimates. Always, always include a contingency (*see definition below*)!

## **Explanation of Development Budget Line Item Terms (Refer to the attached spreadsheet—we can email a spreadsheet to you upon request.)**

### **A: Acquisition**

#### *Building/Land*

Enter the acquisition price of the land or building.

#### *Building Inspections*

Enter an estimate of the total costs of your due diligence inspections. It is recommended that the following inspections be conducted to determine the condition and potential cost to repair the following items before you make an offer to purchase a building:

- Electrical
- Plumbing
- Mechanical
- Roofing
- Structural

*These worksheets are meant to provide introductory information and are not to replace the assistance of hired consultants and professionals.*

### **B: Construction (also known as Hard Costs)**

#### *Renovation Costs*

Enter the cost per square foot for renovating an existing building as estimated by an architect, project manager, estimator or general contractor.

#### *New Construction Costs*

Enter the cost per square foot for new construction of a building as estimated by an architect, engineer or general contractor.

#### *Construction Contingency*

This is a set-aside for cost overruns. No project is ever designed perfectly—there will always be unforeseen conditions or mistakes in your drawings that will require a construction “change order”. A contingency budgets for these unknown additions to your project. Fifteen percent of the construction budget is recommended as the amount of contingency for renovation projects. Ten percent of the construction costs is recommend as the amount of contingency for new construction projects.

#### *Environmental Clean-up*

If a Phase 2 (*see definition below under Section C*) environmental report indicates the need for environmental remediation of your building or land, enter the estimate from your environmental consultant or contractor.

#### *Permit Fees, Tap Fees, Utility Charges*

Contact your local building department and utility companies to inquire about these charges. Some municipalities waive permit fees for nonprofits.



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## **C: Professional Fees**

### *Architecture and Engineering*

This cost covers the design of the building, preparation of construction documents and construction oversight, and is based on a percentage of the construction costs. You should negotiate a fee with your architect.

### *Architecture and Engineering Reimbursables*

An estimate for direct, non-personnel costs incurred by the architects and engineers during the project for expenses such as travel and printing. Set a limit on these costs with your architect.

### *Phase 1 Environmental Consultant*

A Phase 1 environmental report is an initial evaluation of a property or vacant land to determine the potential for environmental concerns such as underground storage tanks, soil contamination, lead paint or asbestos. A Phase 1 is usually required by lenders for commercial or industrial properties.

### *Phase 2 Environmental Consultant*

If the Phase 1 report raises environmental concerns, a Phase 2 environmental report must be performed. The work usually entails additional sampling and testing, and the report offers recommendations for removal and corrective actions of any environmental concerns. Fees for such reports depend on the number of tests and the type of analysis performed.

### *Geotechnical Exploration*

*For new construction projects*—Geotechnical work is conducted by engineers to examine the foundation and soil conditions of your site. This helps determine if your site can support the design and construction of your project. Fees for such services depend on the number of soil borings performed.

### *Testing and Inspection Services*

These are services employed during construction by specialized engineering firms to test materials that support the overall structure of the building. Fees for such services depend on the type and number of tests called for by your architect.

### *Legal Fees*

Enter an estimate of fees for your organization's legal services for the project. These may include review of loan documents, an escrow agreement, and contracts between your organization and a project manager, architect and contractor.

### *Developer/Project Management Services*

The cost of an individual or firm that assumes responsibility on behalf of your organization for coordination, management and oversight of the project.

### *Construction Estimator*

The cost of hiring a general contractor or estimator to provide a detailed estimate of your project's construction costs prior to bidding the project. Using an estimator helps you budget more efficiently and prevents surprises when construction bids are received. Fees depend on the size of the project and the number of estimates provided.

## **D: Project Financing Fees and Costs**

### *Property Survey*

A document provided by a surveying company with the legal description of a property, actual dimensions of a building or vacant land, topographical information, and utility and easement information. Lenders and title companies require surveys. Fees vary depending on the size of the land or building and the level of detail of the survey.

### *Appraisal*

An opinion of a property's value provided by an appraisal company. Appraisals are usually required by lenders before financing is approved. Fees usually range from \$2,000 to \$5,000.

### *Title and Recording Costs*

Services provided by a title company to record mortgages and provide title insurance to you and your lender, which protects you from liens. Fees vary depending on the number of documents that must be recorded and the number of title "endorsements" required by your attorney and your lender.



#### *Construction Escrow Fees*

Services provided by a title company for overseeing your construction escrow account, which manages payments to contractors and subcontractors, and maintains title insurance during construction. Fees vary based on the size of the construction budget and number of construction payments. You can call a title company directly to inquire about costs for this service.

#### *Application Fees*

Fees that a lending institution charges for submitting a loan application.

#### *Financing Fees*

A mortgage fee that covers the lending institution's expenses. This fee is sometimes stated in points, with each point being equal to one percent of the loan amount.

#### *Construction Interest*

The amount of current interest due on your construction loan. For each loan disbursement that is made during your project, interest will become due. The amount you should budget depends on the loan amount, the interest rate and the number of months of construction.

#### *Lender Inspecting Architect Fees*

A separate inspector other than your architect required by the lender to review all work completed during the course of construction. Check with your lender for an estimate of these fees.

#### *Lender Legal Fees*

The lender's legal costs associated with preparation and review of loan transaction documents. Check with your lender for an estimate of these fees.

### **E: Miscellaneous Expenses**

#### *Real Estate Taxes*

Property taxes may become due and payable during the course of the construction project. If taxes are unpaid during construction, the title company will not provide title insurance to you or the lenders. Because taxes are usually due in arrears, you should always budget for

property taxes and should seek a property tax exemption and reimbursement at a later date (*see Worksheet #14: "Applying for Property Tax Exemption"*).

#### *Insurance*

Insurance should be carried during the course of construction. Lenders also require insurance. The cost of insurance depends on the size of your project. You should call your insurance carrier for a quote.

- General Liability—covers your organization for general insurance claims
- Property Insurance—covers your organization for property loss
- Builder's Risk—covers the replacement value of improvements to your property as they are being made

### **F: Furnishings and Equipment**

#### *Program Equipment*

Administrative and office equipment needed for operations. You should determine your needs and an estimate of costs.

#### *Data and Communication Equipment*

The costs of phone and computer cabling and equipment, if these costs are not part of your construction budget.

#### *Security Equipment*

The costs of equipment and cabling for a security system for your facility.

#### *Other Furnishings*

Other necessary furnishings for operations in the facility.



# Creating a Project Development Budget

Development Budget	Notes	Total Cost
<b>A. Acquisition</b>		
Building/Land	Purchase Price	
Building Inspections	Estimate	
<b>B. Construction (Hard Costs)</b>		
Renovation Costs	Per square foot	
New Construction	Per square foot	
Construction Contingency	% of Construction Costs	
Environmental Clean-up	Estimate	
Permit fees, tap fees, utility charges	Estimate	
<b>C. Professional Fees</b>		
Architecture & Engineering	% of Construction Costs	
A&E Reimbursables	Estimate	
Phase 1 Environmental Consultant	Estimate	
Phase 2 Environmental Consultant	(If necessary)	
Geotechnical Exploration	For New Construction	
Testing and Inspection Services	For Renovation or New Construction	
Legal Fees	Estimate	
Developer/Project Manager Services	% of project costs	
Construction Estimator		
<b>D. Project Financing Fees and Costs</b>		
Property Survey	Estimate	
Appraisal	Estimate	
Title and Recording	Estimate	
Construction Escrow Fees	Estimate	
Application Fees	Estimate	
Financing Fees	% of Loan	
Construction Interest	Amount of Bank Loan used during construction	
Lender Inspecting Architect	Estimate	
Lender Legal Fees	Estimate	
<b>E. Miscellaneous</b>		
Real Estate Taxes	Based on tax records	
Property / Builder's Risk Insurance	Estimate	
<b>F. Furnishings and Equipment</b>		
Program Equipment	Estimate	
Data & Communication Equipment	Estimate	
Security Equipment	Estimate	
Other Furnishings	Estimate	
Other		
	<b>Subtotal Furnishings and Equipment</b>	
	<b>Total Development Cost Estimate</b>	<b>\$ -</b>