Development and Operating Budgets

Note: *This handout was created for a cohousing design workshop presented by Design Coalition in 1992*

As a project sponsor you need to prepare budgets to ensure that you have accounted for all costs likely to be incurred in developing and operating your housing, and that the financing and income available to the project are adequate to cover all of these costs. Many figures used in preliminary budgets will be estimates subject to revision as more information becomes available, All figures should reflect the most realistic judgements you can make, since project feasibility will be determined on the basis of your projections.

Many potential funding sources will require you to provide back-up information on your cost estimates such as letters from persons who prepared the estimates for you. These requirements for documentation are in the best interest of both the sponsor and the lender as they ensure that the most realistic estimates possible have been used.

There are two budgets that need to be projected when estimating the feasibility of a housing project, the ***development budget*** and the ***operating budget.***

The ***development budget*** identifies all costs which will be incurred in developing the housing, and all sources of funds to pay for them. These are one time costs incurred between the time a project is conceptualized and the time it is fully occupied.

The ***operating budget*** is a projection of the actual costs expected to be incurred in operating the housing from year to year. It also identifies the income you expect to realize from monthly payments or rents. Model budgets are included in these materials.

Though these budgets seem to be independent, they are interrelated. The income from the project, once all operating expenses have been deducted, will determine how much debt a project can be expected to carry. The mortgage appears on the development budget as one source (or maybe the only source) of funds to cover development costs. Income from the project, after expenses, must be large enough to carry mortgage payments and any other repayable loans in order for the project to be feasible.

Preliminary budgets will show you whether or not the numbers work, or whether the project is even in the realm of feasibility. If your projections are detailed enough, the budget can also help you to identify places where costs can be cut or modified.

When attempting to develop affordable housing, groups often encounter difficulty in matching income to project costs. Raising income is often not an option, since residents have limited or fixed incomes and maybe no equity. Subsidies of some kind will have to be found to ensure feasibility. A "backdoor" financial analysis can be useful in identifying the amount of subsidy needed for a given project. This model begins with establishing housing costs for lower income households at a level deemed "affordable". This income, once operating expenses have been deducted, can be compared to the projected need for development dollars, The difference between the project income and the mortgage it can carry, and project costs becomes a finance "gap". The challenge then becomes to find sources of subsidy (in the form of grants, equity investments, low interest or deferred payment loans, etc...) to fill that gap