

SAD, BUT TRUE ...

Some Examples of How Costs Might Escalate

Note: This handout was created for cohousing financing workshops presented by Design Coalition in 1992

1. **Land option expires** before your group has been able to answer critical questions about the project. You're not ready to offer to purchase. Meanwhile another buyer has come along and the price has gone up. A new option on the now higher-priced land is more expensive than the first time round.
2. Soil borings reveal **underground contamination**, possibly from gasoline storage tanks. Additional tests are required. Soil removal may be required, or even long-term remediation.
3. **Negotiations fall through** on sources of funding from your local Land Trust. Your group now has to add land improvements to your budget, as the Land Trust can only afford the purchase price of the land "as is"
4. Initial **construction estimates have risen** considerably because:
 - the contractor you're working with just got it wrong on some of the bigger construction items. They're apologetic but, they point out, cohousing is different than anything they've seen before; Or,
 - the contractor is in Chapter. II. You can't secure another similar bid from a qualified builder; Or,
 - core group design choices escalate prices at the specification stage, because effective soundproofing and other quality of life measures cost you more than you originally bargained for; Or,
 - Davis-Bacon Act (a Federal law) applies to the project when group decides to use Federal dollars for the project and the number of units built makes it comply with the law. The contractor has to pay higher labor costs than was originally accounted for in estimate,
5. Core group's original **assessment of development** capacity was wrong, or skilled members of the group have left and are no longer carrying crucial tasks, Need to hire a project manager or developer to play a cohesive role in implementing the development plan,
6. **Architectural fees increase** because of design changes late in the process. Re-work costs are additional to original budget for this line item
7. **Change in attorneys** due to poor research at hiring time. New attorneys are reliable, but more expensive. Fees line goes up by ----%,
8. **Construction interest fees go up** because of delays in project
 - Sweat equity isn't moving as quickly as it needs to. Some group members with good intentions are as slow as molasses in January, or
 - neighborhood opposition to the project, which seemed to be non-existent, has materialized in the form of a vocal and persuasive conservative neighborhood resident. Zoning is now a political battle, and you were almost ready to break ground.
9. **Permanent mortgage costs go up** because of group/s decision to forego the inclusion of affordable units due to the complications it presented. Loan fees (points) and interest rate have to be recalculated, and go up because of lost subsidies.
10. **Real estate taxes badly researched**. MIL rate increase of 1% over last year's rate results in unexpected rise in both holding costs and operating expenses.
11. **Failure to budget for contingencies** at 10% of the initial budget leaves group with a shoestring budget. Unforeseen costs now have to come out of pocket via equity, or through additional mortgage. But nobody has more money, and debt for the project is already maximized.

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