



Recovery Housing Project Toolkit

INTRODUCTION

The Recovery Housing Project Toolkit document provides an outline of how to successfully approach recovery housing projects, which may assist with preparing an application for funds from the Ohio Department of Mental Health and Addiction Services (OhioMHAS) Capital Assistance Program.

PLEASE NOTE: This toolkit is designed to provide insight and guidance prior to ADAMHS Board and Community Capital Assistance Program involvement so that, even without a background in real estate development or project management, you will gain knowledge and helpful information about how to navigate the process. *Much of the information in the toolkit directly correlates with the [Community Capital Assistance Project Process Guidelines](#); however, it does not supersede or in any way replace any of the requirements of the Capital Assistance Program Guidelines or application process. This toolkit is strictly for informational and educational purposes.* Please refer to the Community Capital Assistance Project Process Guidelines and Application for detailed information on what is required for your specific project and/or contact one of the OhioMHAS Community Capital Project Managers, if you have questions.

Additional items related to real estate development are also included should you become involved in other real estate projects.

The toolkit is organized into six sections;

- I. Project Pre-Construction
 - Site Identification and Evaluation
 - Development Team Identification and Evaluation
 - Project Delivery Methods
- II. Project Budgeting
- III. Soft Costs
- IV. Hard Costs
- V. Operating Costs
- VI. Appendix: Questions to Consider
 - Questions to Ask an Architect
 - Questions to Consider When Selecting a General Contractor
 - Questions to Consider When Selecting a Property Management Company

Detailed information about each of these topics can be found within.



This symbol will be used throughout the document to denote specific requirements and references to the OhioMHAS Community Capital Assistance Project Process Guidelines.

I. PROJECT PRE-CONSTRUCTION

Project pre-construction work is a critical phase of the development process. Essentially, it is any activity that occurs before the construction work begins. Thorough planning and preparation will help ensure the project moves forward as anticipated and as budgeted.

Site Identification and Evaluation:

You will eventually perform a variety of tests to evaluate a potential site or building, but there are some preliminary questions and, in some cases, upfront inspections (be sure to budget for these costs) to consider.

Make certain that in this initial evaluation, or in your other due diligence, you address the elements in *Appendix B of the OhioMHAS guidelines*.

General Site Concerns

- How well do you know this part of your community? Are you likely to encounter NIMBY (Not In My Back Yard) resistance?
- Is the site adequately accessed by existing roads/alleys?
- What are the surrounding positive amenities (grocery stores, work opportunities, proximity to social services, libraries, etc.) or negative land uses that may affect the quality of life of the residents who will be living there?
- Is there public transportation nearby that residents can utilize?
- Is the site located in a flood zone?
- Are existing utilities adequate for the planned use?

New Construction

- Are there existing structures that need to be demolished?
- Are there any factors that appear to have contributed to this site not being developed previously? This can be anything that will create increased site work costs such as a preponderance of trees (expensive to remove) to a steep grade or wetlands.
- Does there appear to be direct access to utilities?

Existing Building

- Does the building appear to have any structural damage? It may be worth spending a few hundred dollars to conduct an inspection or capital needs assessment to evaluate any obvious challenges that the building may possess and to identify which elements of the building are past their expected useful life (EUL) and need to be replaced.
- Does the project have adequate and functioning sanitary sewer and storm sewer lines? It may be well worth it to bring in a plumber to scope the sewers. This will tell you if there are any obstructions in the sewer line and/or if the line is broken. Sewer lines can be a very expensive to repair or replace, and properly budgeting for this work is important.
- Be aware of costs and care associated with having a Septic System and/or a Leech Field
- Are there any typical infrastructure components that do not exist – like air conditioning, wireless networks, or security systems. Be sure to include such costs in your budgeting.

- Is the building historically relevant? If a building is in an historic district or registered with the National Parks Service, there could be additional design and construction considerations that could impact the project budget. You can search to determine if a building is on the National Register of Historic Places by going to the following website: <https://npgallery.nps.gov/nrhp>. It is also recommended to check with your local municipality to see if they have a register of historic properties or districts.
- Be sure to check local zoning ordinances and talk to your building code enforcement office. Questions regarding building code enforcement should be referred to either your local building code enforcement office or the Ohio Department of Commerce, depending on who has jurisdiction over your site.

Development Team Identification and Evaluation:

If you are new to real estate development, you may want to consider finding a consultant to provide guidance. Note: these are allowable expenses but are not reimbursable. Nevertheless, it could be money well spent if it leads to the successful completion of your project.

It is important to identify a team that can understand your goals and budget, and who work well with you and other members of the team to realize the project.

Key members of the development team include:

- Owner/Operator – most likely you or a legal entity associated with your organization
- Developer or Consultant
- Architect
- Property Manager (maintenance and compliance)

Perhaps the most important member of the pre-construction team is the architect. An architect will likely provide you with a concept for your project before you formally enter into a contract with them; to help sell you on their vision. These are exciting to view but remember that the architect is there to advise you and create your vision. The best qualified firm may not have the most exciting illustration. Before signing a contract or commissioning work, it is highly recommended to have the contract reviewed by an attorney.

Once the architect has provided a preliminary concept, they should also be able to provide you with an initial cost estimation. As your design progresses, getting updated cost estimates will help keep your design process on track and within the budget.



Ensure that your architect is familiar with the guidelines in ***Section 3 and Appendix K of the OhioMHAS project guidelines***. Remember, you must interview a minimum of three (3) architectural firms if you intend to seek MHAS reimbursement for architectural expenses. Make certain that all firms have the same interview format.

It is important to be aware that if your architect cannot provide thorough and concise construction documents, your contractor may end up with questions or redesigns that occur in the field. In either of these scenarios, you as the owner can lose significant time and money. While

this may not be 100% avoidable, vetting the architect will improve your chances of a smooth project.

Project Delivery Methods

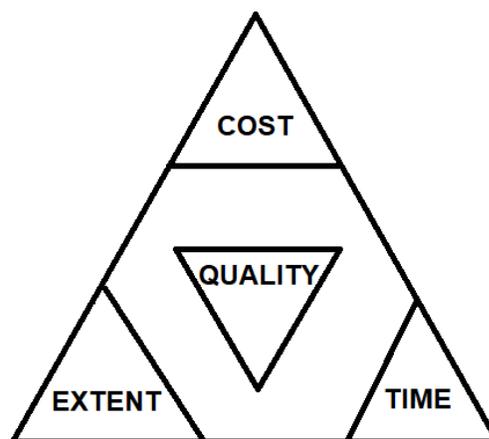


Section 3 of the OhioMHAS guidelines provide you with a very specific process regarding Project Delivery. Project Delivery is the contractual relationships necessary to establish a sequential process of design and construction activities that converts a conceptual idea into a completed and occupied facility. Project Delivery for public authorities in Ohio may now be accomplished by any of the following methods:

- Design-bid-build (D-B-B)
 - o Multiple-prime contracting firms (Separate contracts for Plumbing, Electrical, General Trades, Site Improvements, etc.)
 - o General contracting (Single-Primary Contractor)
- Construction management (CM)
 - o CM as agent/adviser (Used in conjunction with D-B-B multiple-prime)
 - o CM at risk (CM holds the construction contracts)
- Design-build (D-B)
 - o The owner holds a single contract for design and construction. Ohio law stipulates a bridging type model of D-B delivery with an architect and engineer to develop the program, early design concepts, and the request for proposal to select the design-build team.

A competitive market frequently compels owners to select a Project Delivery method that will achieve a balance between the following factors to establish the Quality of the project, as illustrated in this figure;

- Extent (scope)
- Cost (budget)
- Time (schedule)



II. PROJECT BUDGETING

This next section of the Community Capital Assistance Project Toolkit is designed to give more specific information about each of the costs listed in the *Project Budget Tool*, which is the companion excel spreadsheet to this document.

The Project Budget Tool is a very basic real estate development Proforma (i.e., budget) and will have most of the project-related line items that you should be considering as part of your project pre-development (please be aware that some line items may not be applicable project; while in some cases you may need to add line items that are relevant to your specific project type).

You should work with OhioMHAS early in the pre-construction process to identify which costs are REIMBURSABLE and which costs are NOT. This is key to understanding if the project is feasible and calculating how much matching funds you will need to provide.

You should be aware that once an application is submitted and approved by OhioMHAS and by the Ohio Controlling Board *the grant amount will not be increased...*this is why it is important to think through each and every possible expense and budget appropriately. Large unforeseen expenses could be detrimental to completing the project (on budget, in scope, on time and with the Quality you expect) and receiving reimbursement from OhioMHAS.

III. SOFT COSTS

Soft cost expenses are not instantly visible in your project. These are the fees that pay for the important details that get the job done. They include, for example, design fees, management fees, legal fees, taxes, insurance, financing costs and administrative expenses. Legal requirements can increase soft costs. The following list helps to defines many common soft costs associated with real estate development. Carefully review this list to help ensure you are considering all possible expenses as you will not be able to increase your funding request once it has been approved by OhioMHAS.

- **Acquisition:** These are all the costs associated with acquiring land or a building for your project that go beyond the hard cost of the land or facility.
- **Project Management:** Having one point of contact on your team coordinating development activities is very useful. If you do not have someone on staff with that level of experience, this can be outsourced.
- **Environmental Site Assessment:**
 - o *New construction:* A Phase I Environmental Review is recommended. This will give you background on the site and any existing buildings or surrounding environmental issues that may impact your site (i.e., a dry cleaners or gas stations on an adjacent site may have leaked chemicals into the soil)
 - o *Existing building:* A Phase I is not necessary, but an inspection for asbestos, lead paint (especially important in properties built before 1978, when lead paint was outlawed), and structural integrity is recommended.

- **Soils Testing:** Only required for new construction, this will ensure that the land you want to build on is adequate for your project. The contract should be competitively procured as part of the architectural/engineering contract or independently, per OhioMHAS Capital Guidelines.
- **Survey:** This is only required by OhioMHAS if the parcel boundaries are being changed.
- **Civil Engineer:** Generally confined to new construction, a civil engineer will prepare the ALTA survey, topographic survey, utility research & coordination, stormwater management, sanitary sewer coordination, etc.
- **Appraisal:** If your project site costs less than \$100,000, then one independent appraisal is acceptable. If your project site exceeds \$100,000, then two independent appraisals are required by OhioMHAS. Make sure you present the criteria in *Appendix C of the Capital Application* to the appraiser to ensure compliance.
- **Legal Fees:** Retain an attorney with experience in reviewing architecture, contractor, financing and non-profit documentation. Determine whether your community has an organization that provides free legal aid to non-profits. If not, some law firms will provide you with discounted or pro bono work.
- **Title Search:** The title company that is engaged for the acquisition of the land will review the property's title to make sure there are no unknown liens or other encumbrances attached to it. Typically, you will want a title insurance policy from the Seller when acquiring property, depending on the details of the purchase.
- **Market Study/Feasibility Analysis:** Feasibility is covered in other parts of the Process Guidelines, but some lenders may require a formal market study from a firm accredited by the National Council of Housing Market Analysts.
- **Marketing/Branding:** Some projects may benefit from marketing or branding assistance before it opens.
- **Office Expense:** While OhioMHAS Capital funds cannot be used for staff time, other funding sources may permit you to factor in staff time that is devoted to the successful completion of the project.
- **Architecture Fees:** These are the fees associated with the design of your project from initial concept through the creation of construction drawings, construction administration, and project closeout.
- **MEPs (Mechanical, Electric, Plumbing):** Site work, and Fire Protection may require separate designs, especially in new construction. The architecture firm will usually include this in their fee and coordinate this work.
- **Rezoning:** You will want to examine the existing zoning and see if a re-zoning or zoning variances are required. Your architect can do a zoning review to determine what is required.
- **Building Permits:** Make certain that your project has the proper permits according to local building code. There are usually fees associated with attaining the appropriate permit(s) – be sure to include these fees in your budget.
- **Real Estate Taxes:** If applicable, real estate taxes must continue to be paid during construction. OhioMHAS applicants should be either government entities or non-profits, who are eligible for property tax exemption and are expected to apply for such an exemption after acquiring any property.
- **Utilities:** Your contractor will need to use utilities during construction so budgeting for them is important.

- **FF&E** (Furniture, Fixtures & Equipment): This can be anything that you need to operate your project that literally is not nailed down.
- **Owner's Insurance:** OhioMHAS requires operators to maintain an insurance policy insuring the building and improvements against hazards, casualties and contingencies with loss payable to OhioMHAS and the Applicant.
- **Builder's Risk Insurance:** This is usually carried by the general contractor and they must carry a policy of \$1.5 million.
- **Title Insurance:** The protects you from any deficits or unforeseen issues when transferring your title.
- **Loan Origination and Servicing Fee:** This is an administrative fee charged by the lender when you close on a loan. Speak with your lender about their loan fees so that they can be budgeted for.
- **Lender Legal:** Some lenders ask you to pay for their legal work and/or staff time.
- **Construction Loan Interest:** Your construction bridge loan will accrue interest during construction and payments may be required, even though you are not yet generating revenue. It is recommended that you get a Term Sheet from your lender which spells out the details of the loan including but not limited to: the interest rate, term of the loan, origination and servicing fees, payment requirements, and security and collateral that will be taken (i.e., mortgage, guarantee etc.) of the loan so you know how much to budget for and for how long the quoted rate is in effect for (as interest rates can change from time to time with changes to the Prime Interest Rate).
- **Lease-up Reserve:** Consider that your project might not begin its operation at 100% occupancy. You may need to include this line item in your budget so that you have enough resources to pay debt(s) and operate the building until the property has stabilized. *Note:* Please note that OhioMHAS does not fully reimburse until you have satisfactorily submitted all required documentation, so there may be additional time between project completion and OhioMHAS reimbursement that must be budgeted for.
- **Project Contingency:** With soft costs, carrying a contingency of between 4-6% should be adequate. This is separate from the construction contingency that should be set in consultation with your architect.
- **Development Fee:** Most lenders allow for a development fee of between 3-4% payable to the owner, however please note this is NOT an OhioMHAS reimbursable expense.
- **Construction vs. Permanent Loan:** You may have multiple loans for your project - one during the construction period and one after. Ensure that you have factored any fees associated with this into your proforma.
- **Operating Reserve and Replacement Reserves:** If you have sufficient resources available, you might want to consider funding operating and replacement reserves of 3-5% annual gross income for each unit. This reserve will allow the project to begin operations with a built-in cushion for unexpected operating expenses, such as an increase in utility rates or property taxes. The replacement reserve can also help to mitigate unforeseen maintenance issues.

IV. HARD COSTS

The hard costs of a project are the parts of your project you can actually see. This includes everything from the foundation and the structure to the detailed interior finishes, combined with electrical wiring and plumbing and the furnishings. The labor involved with putting the structure up is also a hard cost. Hard costs per square foot vary according to the project type.

- **Demolition:** You might need to demolish all or part of an existing structure to complete your project. Demolition work could also be included as part of your construction contract.
- **Site Work:** This includes grading the site, excavation, stormwater control, any subterranean work, paving, etc. and will be performed by your general contractor. It is considered a distinct line item because it is only supportive of the physical building, not a part of the building itself.
- **Construction Costs:** This is the actual brick and mortar (and labor) associated with your project.
- **Construction Contingency:** It is wise to factor in a contingency for unforeseen costs and overages. Due to recent changes in the international trade market and natural disasters (tariffs, trade agreement uncertainty, hurricanes etc.), it is prudent to carry a 5% contingency for new construction and 10% for a rehabilitation.

Note: the contingency for a rehab is higher because there is a higher likelihood that unknown conditions might be discovered once construction has begun. Your architect and contractor can help you craft this number based upon the specifics of your situation.



Helpful Hints:

Please also note that contingency might also be necessary if there are material cost increases between the time you develop your construction estimate, i.e. the number that is submitted as part of your OhioMHAS application, to when you receive funding approval and are able to sign the construction contract.

V. OPERATING COSTS

Before you finalize construction plans or acquire a property, it is important to ensure that the project will generate enough resources to operate into the future. OhioMHAS funds carry a 30-year commitment, and you will want to carefully consider all possible sources of expenses. Failure to include these costs can create a short-fall in your budget, which over time, can destabilize the property and possibly, your organization.



Helpful Hints:

Some communities have incentives available for redevelopment work in specific areas. You will want to research if you may be eligible for a tax abatement or exemption. Contact your local development office to find out more.

Expenses to consider

- Utilities:

- Water/sewer
- Refuse/recycling
- Electricity
- Gas
- Cable
- Internet

Note: Is there any need to separate your utilities by unit or user/tenant? If so, this should be addressed up front with your architect/general contractor team. Also, you will want to consider if you will pay the utility expenses or if the tenant will be responsible.

- **Lawn Care/Landscaping:** Grass cutting, tree/shrub pruning, watering the lawn during drought conditions, weeding and removal.
- **Snow Removal:** Shoveling walks, plowing parking areas, salting ice (do you need a pet friendly salt?).
- **Regular Janitorial Costs:** Vacuuming, sweeping, window washing.
- **Unit Turn Costs:** This is the cost you incur when a person moves out and you are preparing that space for a new individual. Depending on the condition that the space is left in, this may include wall repair, painting, carpet cleaning or new carpeting, a thorough cleaning, and other minor repairs.
- **Pest Removal:** Sometimes this is preventative, like when trying to ensure termites do not infiltrate your property. Sometimes this is reactive, like mice, cockroaches, or bed bugs. Either way be sure to expect some expense related with pest control and removal.
- **Legal:** As always, it is good to carry some money for legal fees (eviction proceedings, etc.).
- **Marketing:** How will you attract residents to your property? Be sure to consider Fair Housing Laws as you develop your marketing strategy.
- **Insurance:** You will need to budget for property/liability insurance.
- **Property Management:** As discussed earlier, depending on the nature of your project and the capacity of staff, you may wish to hire a property management company to be responsible for identifying residents, collecting rents, and addressing minor repairs. Be sure to include resources to pay for these services.
- **Administrative:** You should budget adequately for all staff including on-site or live-in staff members. While smaller projects may not typically generate sufficient revenue to pay for a full-time staff person or require staffing, it may be necessary to include some administrative costs in your budget.
- **Replacement Reserve:** It is good to allocate 3-5% of your net operating income into a replacement reserve fund. That way if you experience a large repair cost, especially one not covered by your insurance policy, you have the resources to address it.

Please contact OhioMHAS Bureau of Capital Planning and Management with questions and directions regarding the Capital Application process. For Recovery Housing program-related questions, contact the Bureau of Recovery Supports & Housing.

VI. Appendix: Questions to Consider

There are many questions that you may wish to consider as you move through the development process. In this section, we provide you with some additional suggestions to help guide you.

Questions to Ask When Interviewing an Architect

- Describe how and why you believe you are the best qualified architect for this project.
- How many projects of similar size and scope of you completed?
- How many public works projects have you designed and administered?
- How many registered architects do you have on staff?
- Do you envision any sub-consultants? If yes, have you worked with them before and why did you select them?
- Do you have Errors & Omissions Insurance? If so, have you had a claim made against you? If so, describe the details.
- If selected, when can you start?
- The project should be ADA compliant. This is easy to address with new construction but could pose an issue with a renovation. Ask the architect how they would create a solution.
- Do you have a person on staff who is familiar with the local building code at my proposed project location? **This is critical.** You do not want to be in the field and have a city inspector stop construction because you are not compliant with the municipal code.
- Who will be the project manager? What is their experience managing similarly sized projects or working with smaller organizations?
- How many hours will you be on-site during construction?
- Can you provide references?

Questions to Consider When Selecting a General Contractor

Should you select a project delivery method that allows for you to interface with perspective general contractors, the following questions may be helpful:

- Describe how and why you believe you are the best qualified firm for this project.
- How many projects of similar size and scope have you completed?
- Of those projects, were they finished on time and on budget? If not, why?
- What is your experience working with smaller corporations?
- What is your approach to budgeting and value engineering?
- What is your history of Minority Business Enterprise/Women's Business Enterprise participation?
- Will you entertain hiring qualified sub-contractors from our community?
- If selected, when can you start?
- Who will be the project manager? What is their experience managing similarly sized projects?
- Can you provide references?

Questions to Consider When Selecting a Property Management Company

Depending on the size and location of your project, you may consider self-management of the property or third-party management. Third-party management is when you pay an unrelated company to manage the property for you. Knowing the likely costs of how you intend to manage a new or expanded facility will assist you in your overall understanding of the project costs.

Some questions to consider asking a property management firm:

- Are you insured? It is important that they at least carry liability insurance.
- How many units do you manage vs. how many staff? Do they have the capacity to add your units to their portfolio?
- What is your fee structure? 7-10% of gross rents is a fairly common fee; but if you are asking more of them, expect a higher rate.
- What types of properties do you manage? Recovery housing is a unique type of housing and finding a company with relevant experience will be helpful.
- Can you provide a copy of your management contract, lease, etc.?
- What is your repair process like? Will you give them the autonomy to make small repairs automatically, or do you want to be consulted for everything? Do you prefer to be notified in writing as opposed to a phone call?
- What is your hourly rate for maintenance staff? Hourly rates vary from market to market, so you will want to determine what a fair rate is. \$40-\$50 an hour is not uncommon for labor. Materials are an additional expense.
- Do you have an on-line portal? This will be helpful for you to review monthly income statements, maintenance requests, etc.
- Do you provide Fair Housing training to all of your staff, including maintenance staff, on a regular basis?
- Can you provide references?