



Estimating Capital Project Costs for Health Centers

Prepared by Capital Link | April 2011

How Much Will My Capital Project Cost?

A successful project starts with good planning and a capital project budget provides an important roadmap. While every project is different, this document outlines the main components of a capital project budget and provides assistance in estimating top-line construction costs. The recommendations are based on the review of approximately 450 community health center capital project budgets completed during 2008 to 2011. We have provided median cost per square foot as well as the 25th and 75th percentile measures for various categories of construction projects. We recommend using an estimate between the median and 75th percentiles.

The capital project budget begins with “informed guesstimates” and becomes more refined with input from expert professionals such as architects,

construction managers, and general contractors as the organization progresses through the development process. Once a health center sets the project budget and secures funding, the costs associated with changes or oversights grow

exponentially. So, it is always prudent to err on the side of caution. Note that the guidelines presented in this document are intended to provide preliminary assistance to health centers contemplating capital projects and do not necessarily represent actual costs incurred. Furthermore, project construction costs are greatly influenced by basic building design (material selection, building configuration, number of floors, energy efficiency, LEED/green building selections, interior finishes,

etc.) but those cost considerations, as well as the variability of site preparation costs, are beyond the scope of this report.

Many Factors Influence Project Cost, Including:

- If real estate needs to be purchased
- Whether the capital project is for new or renovated space
- Building size and type
- Project location
- Financing costs
- Other fees which vary by project and region

What Expenses are Included in a Capital Project Budget?

A capital project budget is typically divided into four main sections as follows:

Site Acquisition Costs

The cost of acquiring land and/or existing buildings is one of the most variable expenses associated with a new project. The cost can run from zero dollars to \$100 or more per square foot. Costs related to the acquisition, such as real estate brokers' fees and attorneys' fees are also included here. More information on site selection expenses and considerations is provided on Page 8 of this report.

Note that given the variability and unpredictability of site acquisition costs, they have been excluded from this comparative analysis. So, square footage costs include Hard, Soft, and Furniture, Fixtures & Equipment (FF&E) expenses as described below.

Hard Costs

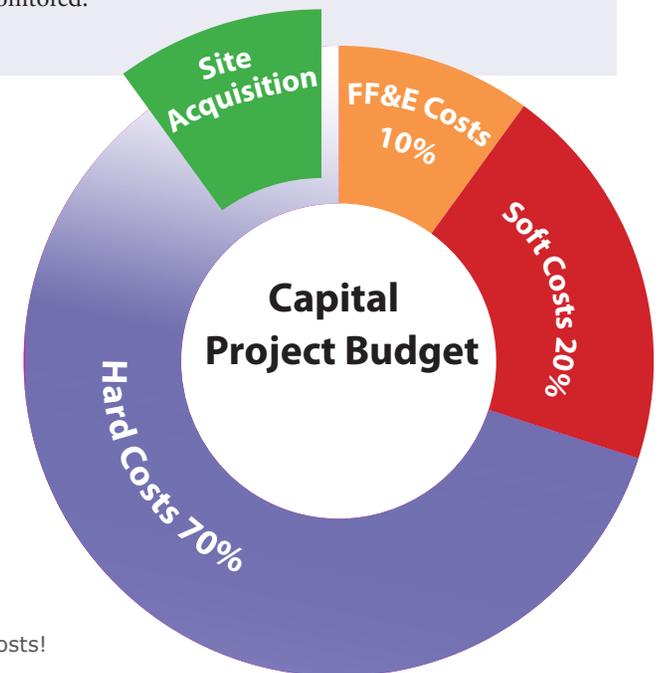
Hard costs, sometimes called “brick and mortar costs,” are the largest component and usually comprise about 70% of the budget. These are the costs for improving the property and constructing the health center. Before construction, hard costs are generally lumped together in one category as construction costs. During construction, the specific items that constitute construction costs—such as demolition, excavation, electrical, plumbing, etc. and fixed equipment costs—are individually listed and monitored. Traditionally, the contractor's fee is included in hard costs.

Furniture, Fixtures & Equipment (FF&E)

Furniture, Fixtures and Equipment generally comprise about 10% of project costs and includes new or additional moveable furniture and equipment that must be purchased for the health center to provide services. FF&E costs differ from hard costs in that they are not permanent fixtures of the building.

Soft Costs

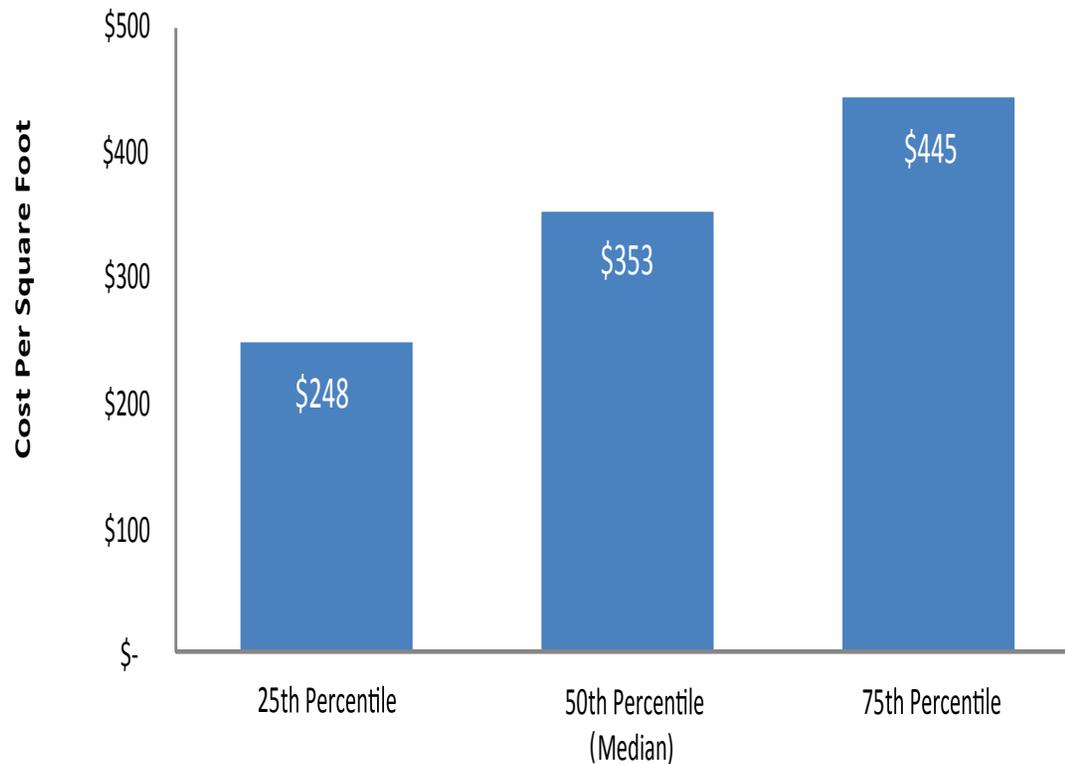
Soft costs usually represent approximately 20% of project costs and include architectural and other professional and consulting fees, environmental assessments, surveys and permits, services related to titling, inspecting and appraising the property, administrative and project management, and other costs related to temporary utilities, moving or rent. Financing expenses including commitment, borrower, and lender attorney fees are also included in soft costs.



Note: When applicable, health centers must comply with federal procurement standards, which can affect project costs!

National Project Cost Per Square Foot

"Cost" includes hard, soft, and FF&E expenses.



When considering total costs (hard, soft, and furniture, fixtures & equipment) for all capital projects reviewed, the national median cost per square foot was \$353. However, there was great variability in average costs, with projects ranging from a low of \$125 for a renovation project in rural Ohio to over \$1,000 per square foot for a new building in Alaska. A range of \$248-\$445 per square foot is a reasonable top-line estimate. But, further refining cost estimates based on project type, size, and location is even more helpful.

25th Percentile: 25% of health centers studied fall below this figure

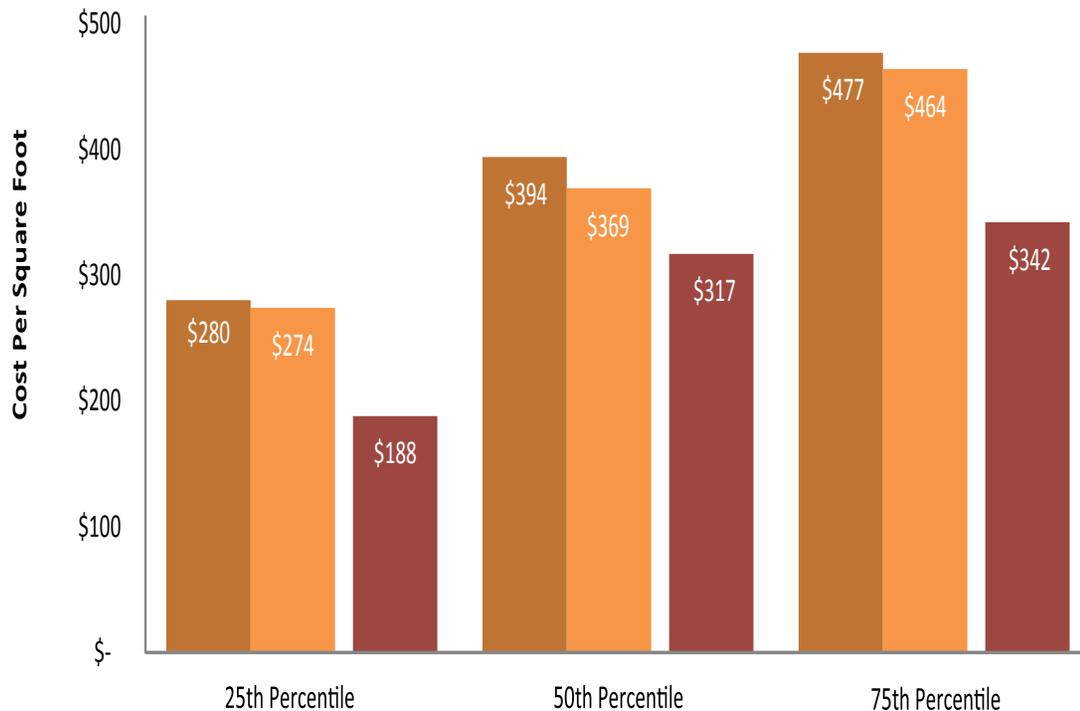
50th Percentile or Median: Half the health centers studied were greater and half were less than this figure

75th Percentile: 75% of health centers studied were below this figure

$$\text{Cost Per Square Foot} = \frac{\text{Total Project Cost}}{\text{Total Square Footage}}$$

Is it More Costly to Add Square Footage or Renovate an Existing Space?

- Construction of a New Building
- Addition of Square Footage to Existing Building
- Renovation of Existing Structure with No Added Square Footage



In most cases, adding square footage (whether it is new space or an addition to existing space) costs more per square foot than renovating or rehabilitating an existing space. However, architects have noted that adapting and upgrading an existing building that has been used for something other than health care to a health center can be more expensive than constructing a new building. The same is true for antiquated facilities and those with environmental issues. It is important to understand the true extent of the renovations necessary to accurately estimate project costs.

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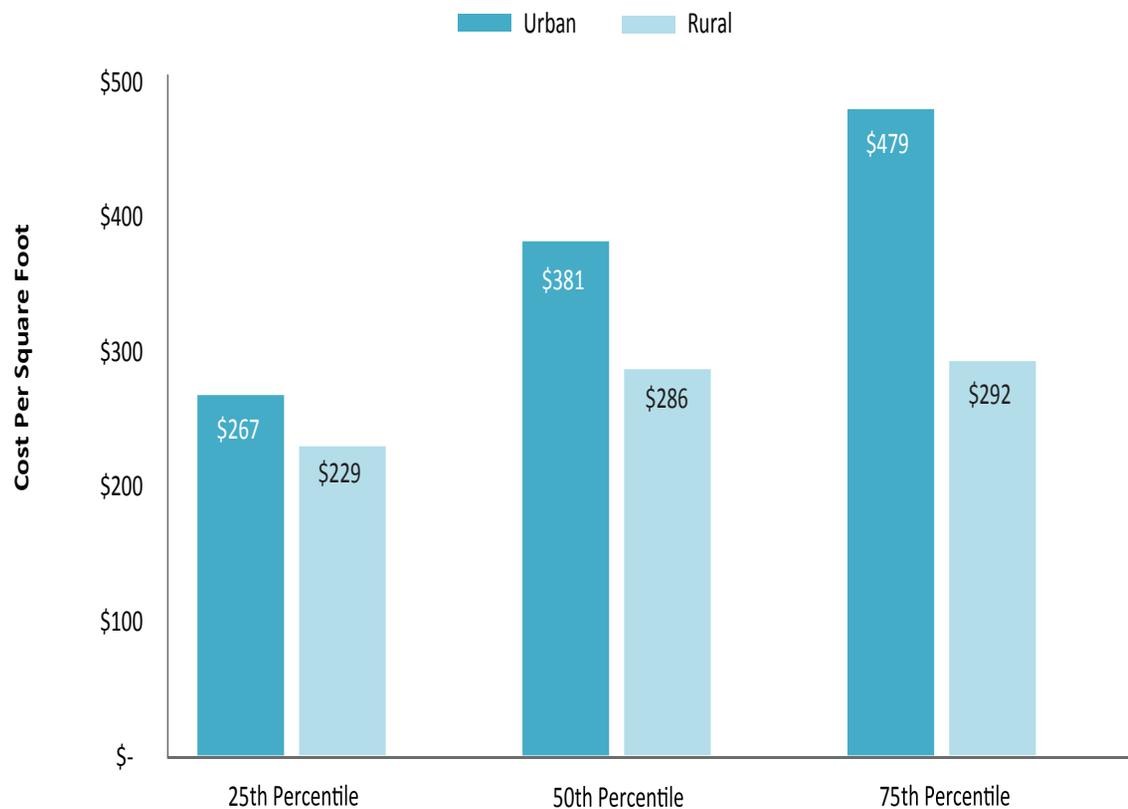
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Are Urban or Rural Projects More Expensive?

Capital Link defines a rural area as one with a population less than 50,000 residents, based on the U.S. Census Bureau's American FactFinder.



In general, urban projects are considerably more expensive than their rural counterparts.

The national analysis showed median costs for urban projects were almost \$100 more per square foot than rural ones. Costs were higher in every category—hard, soft, and FF&E expenses—for urban projects. Furthermore, all project types (new construction, adding space, or renovating space) cost significantly more to build per square foot for urban projects.

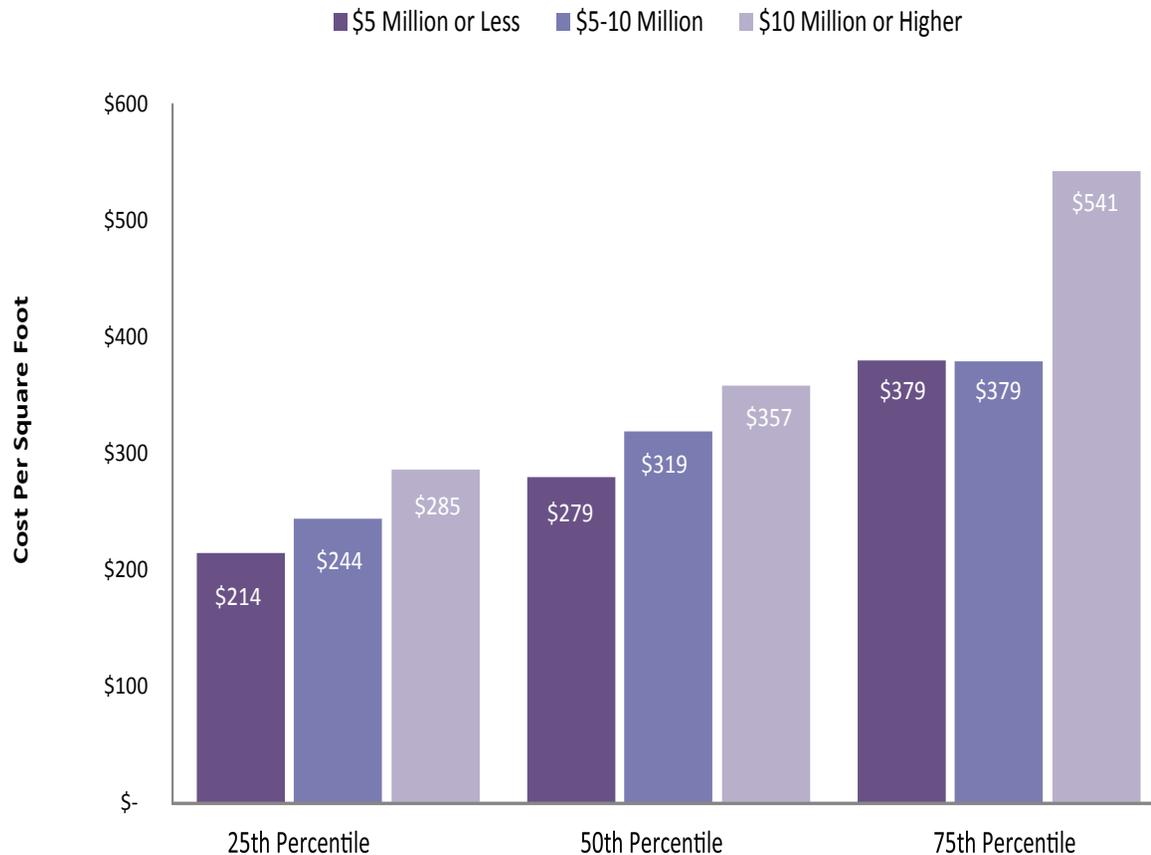
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How Does Project Size Impact Cost Per Square Foot?



The total cost of larger projects is generally more expensive per square foot due to the level of complexity and coordination involved. Much of the higher expense is in the form of soft costs from architects, interior designers, multiple attorneys, and financing fees. Furthermore, most larger projects are located in urban areas which generally adds to project cost. So it is critical to plan for higher square footage costs when preparing a capital budget for a large project.

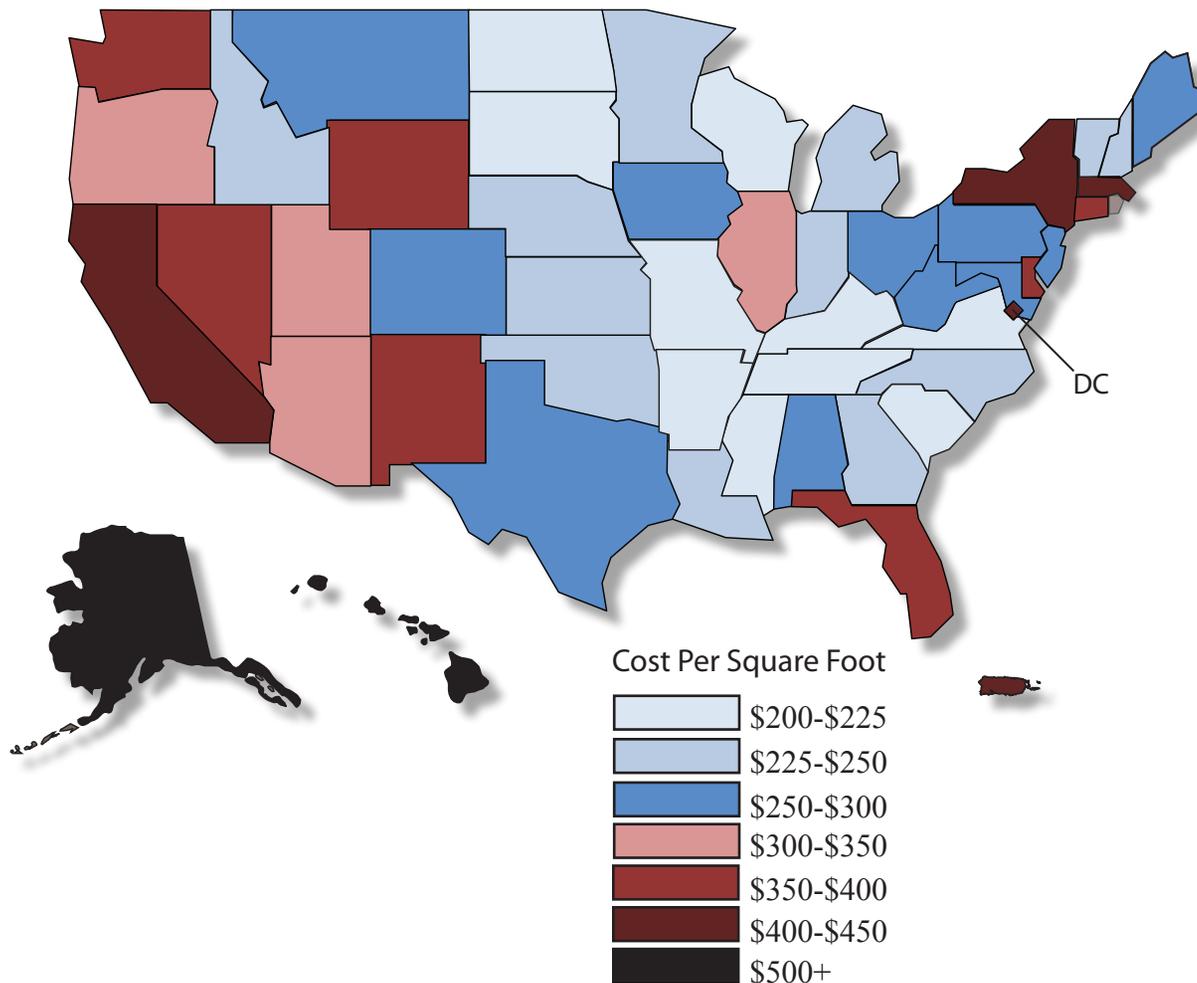
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Median Project Cost by State



Projects in certain states cost more per square foot to construct than others. This variation is mainly the result of higher labor and materials costs in certain regions of the country. This map provides a guideline of the median cost per square foot for construction in specific states. Projects completed in Massachusetts, New York, California, and the District of Columbia typically have higher costs per square foot due to higher labor rates. And, states with large rural populations tend to have lower costs per square foot. The isolated states of Hawaii and Alaska must account for transportation of materials, inflating their costs, and making them the areas with the highest cost per square foot.

Note: Cost by State includes hard, soft, and FF&E expenses and is based on a combination of urban and rural projects.

$$\text{Cost Per Square Foot} = \frac{\text{Total Project Cost}}{\text{Total Square Footage}}$$

Summary

Developing a well-thought out capital project budget is an important step in planning and undertaking capital development. And, the benchmarks included in this document may help you assess the reasonability of your forecasts and projections. However, every project is different and the expertise provided by construction and project managers and others with extensive experience in a particular market place or functional area is the best source of specific project information.

Data Sources

Capital Link reviewed 450 Community Health Center capital project budgets for 2008-2011 from 50 states and Puerto Rico including Capital Link's proprietary project budget data, budgets provided for the Health Resources and Services Administration's (HRSA) Facility Investment Program (FIP) health center grants as available, and Capital Link's national capital needs assessment.

Site Selection Considerations

While this document does not compare the costs involved in site selection, it is important to note that a site's physical characteristics may significantly impact the cost of preparing for a new construction project. One common cost is the remediation of adverse environmental conditions. Another concern is geotechnical (sub-soil conditions). For example, the presence of ledge rock under the desired building footprint could require blasting or expensive foundation engineering. Site shape may also present problems in terms of the location of the building footprint within a site. Before entering into an agreement to acquire property the community health center should, together with specialists, thoroughly investigate these issues to minimize cost and risk.

Acknowledgment

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About Capital Link:

Since 1998, Capital Link has provided planning and capital solutions for hundreds of health center building projects. We assist health centers and primary care associations in accessing capital for building and equipment projects, and we provide extensive technical assistance throughout the entire capital development process. Additionally, Capital Link provides targeted loans to help health centers leverage other sources of capital. Capital Link works nationally out of its main office in Massachusetts and satellite offices in California, the District of Columbia, Louisiana, Maryland, Missouri, Washington and West Virginia.

Additional Resources

Additional free capital planning resource documents (such as *Developing a Capital Project Work Plan*, *Tips for Managing Facility Development Risk*, and *Developing a Health Center*) are available at www.caplink.org. Capital Link is also able to provide initial capital planning services to section 330 federally qualified health centers (FQHCs) without charge through the support of the Health Resources and Services Administration (HRSA). For more information or to discuss your project, please contact: Mark Lurtz, Senior Director of Marketing & Project Consulting, Capital Link Telephone: 636-244-3082, Email: mlurtz@caplink.org.