



Estimating Capital Project Costs for Health Centers

Capital Link | June 2013

Estimating Project Cost

A successful facility starts with good planning and a capital project budget provides an important roadmap. While every building 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 over 500 community health center capital project budgets for 2010-2013. This resource contains median cost per square foot as well as the 25th and 75th percentile measures for various categories of construction projects. Capital Link recommends using an estimate between the median and 75th percentiles. This analysis is an update to a capital project estimation report published by Capital Link in April 2011 which reviewed the period of 2008-2011. Overall, capital project costs have increased somewhat from the previous report (consistent with inflation) but the trends and major factors influencing project cost are remarkably similar.

Importance of Preparing a Capital Project:

The capital project budget begins with “informed guesses” 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.

Factors Influencing Project Cost Include:

- If real estate needs to be purchased
- Whether the capital project is for new or renovated space
- Project location
- Building size and type
- 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 only Hard, Soft, and Furniture, Fixtures & Equipment (FF&E) expenses as described below.

Hard Costs

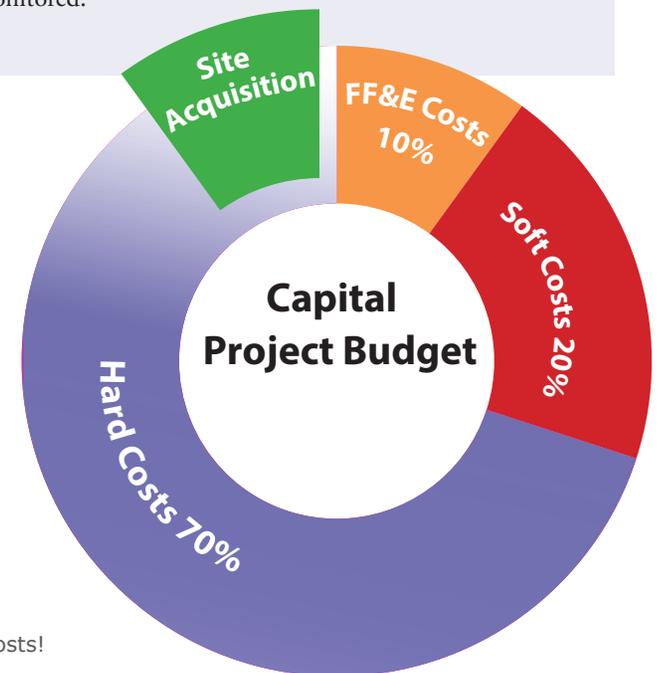
Hard costs, sometimes called “brick and mortar costs,” are the largest component and usually comprise about 70% of the budget. These are the costs for improving the property and constructing the health center. Before construction, hard costs are generally lumped together in one category as construction 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

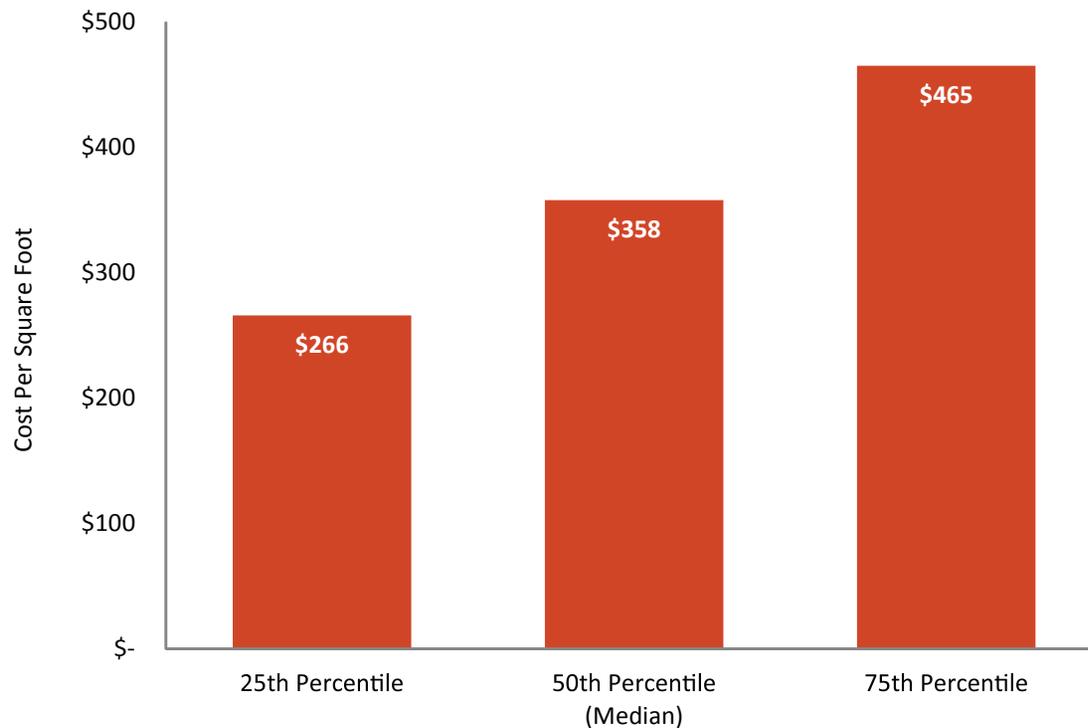
Soft costs usually represent approximately 20% of project costs and include architectural and other professional and consulting fees, environmental assessments, surveys and permits, services related to titling, inspecting and appraising the property, administrative and project management, and other costs 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 the capital projects reviewed, the national median cost per square foot was \$358. However, there was great variability in average costs, with projects ranging from a low of \$204 per square foot for a renovation project in Ohio to over \$900 per square foot for a new building in California. A range of \$266-\$465 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

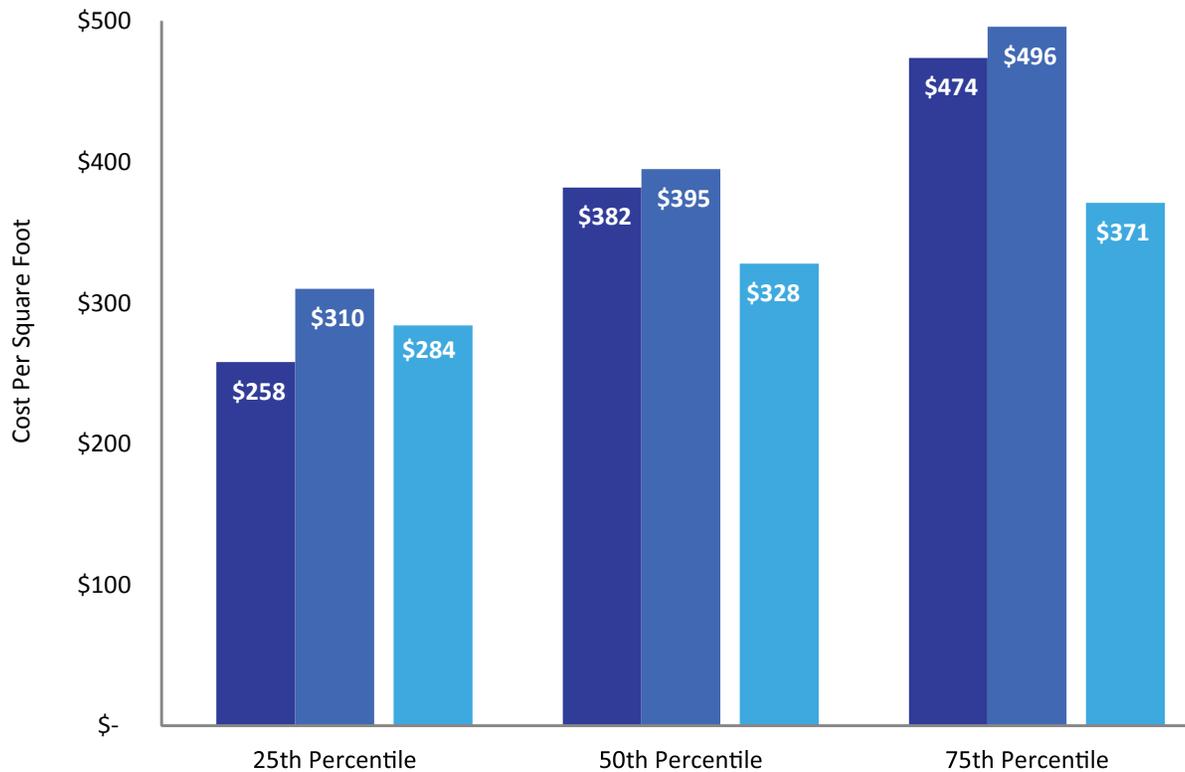
50th Percentile or Median: Half the health centers studied were greater and half were less than this figure

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, adapting and upgrading an existing building that has been used for something other than healthcare to a health center can often 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. For example, at the 25th percentile, for the data reviewed, the cost of constructing a new building was actually less than the expense of renovating it.

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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 \$80 more per square foot than rural ones. Costs at the median 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. It is interesting to note that, at the 25th percentile for the period, rural projects were actually more expensive per square foot than urban ones. The cost of having materials transported as well as hiring architects, engineers and contractors outside of the immediate area might also contribute to the higher costs.

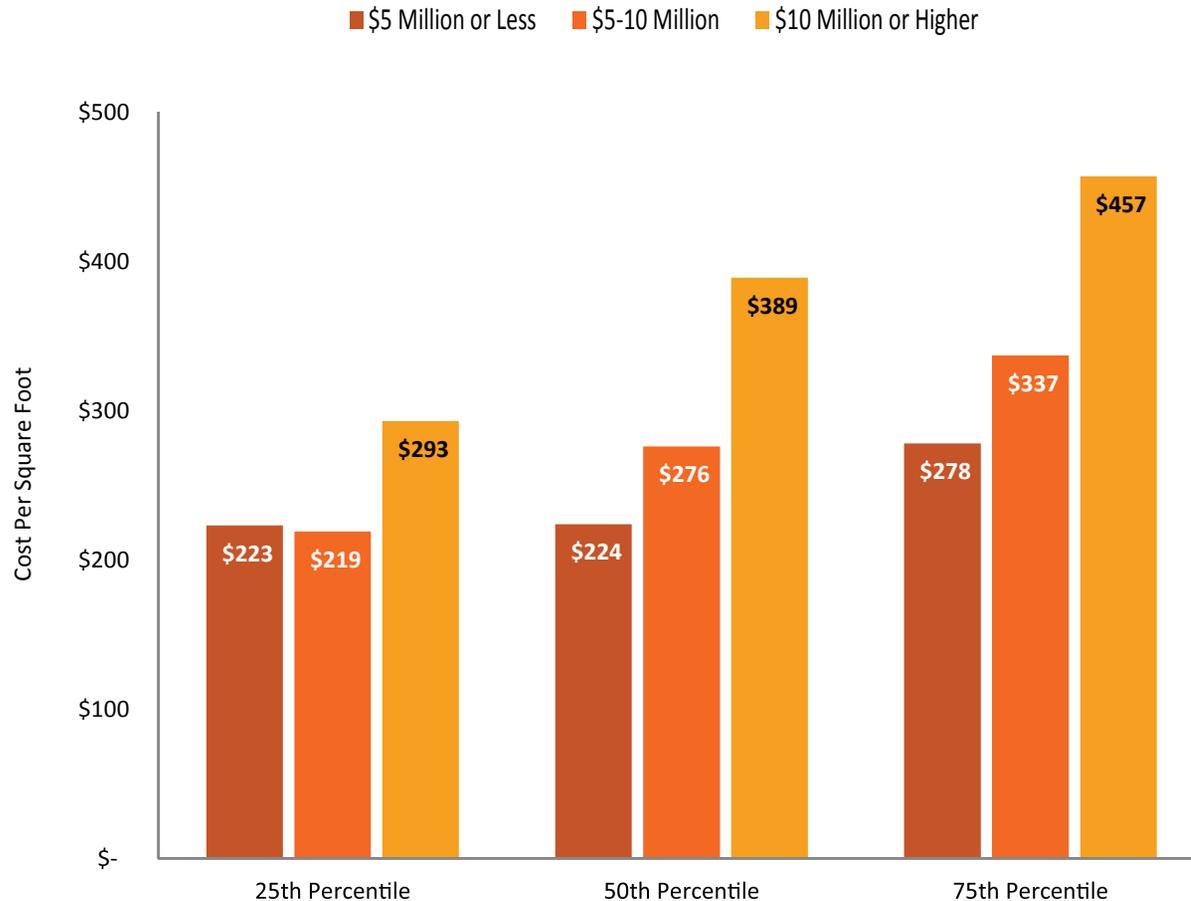
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How Does Project Size Impact Cost Per Square Foot?



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. Additional costs might also arise from high-end HVAC systems needed to cover a larger area and expensive support walls and other materials to accommodate the more expansive space. Furthermore, larger projects are often located in urban areas which generally adds to the project cost. So it is critical to plan for higher square footage costs when preparing a capital budget for a large project.

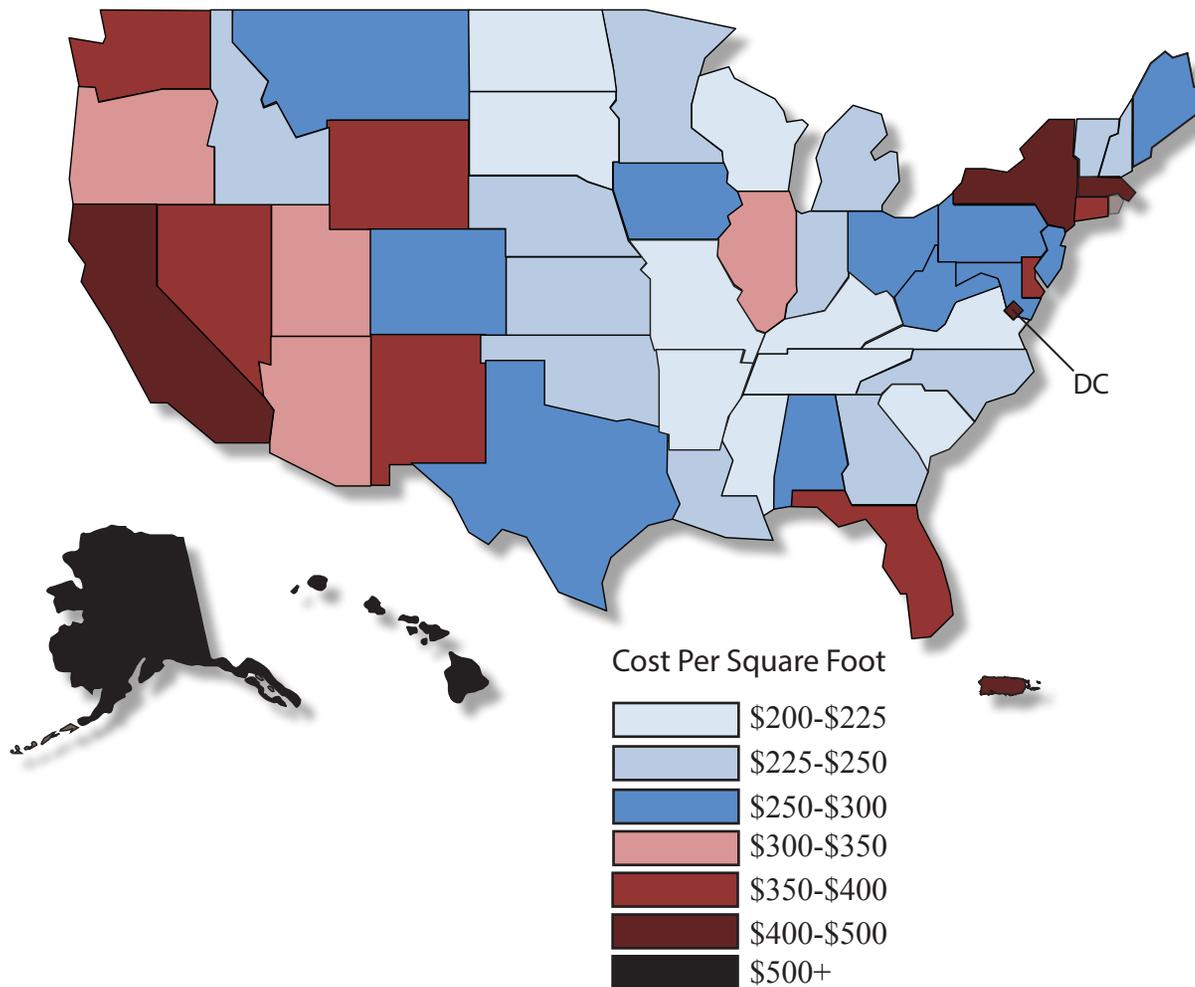
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Median Project Cost by State



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 partially 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.

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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 500 Community Health Center capital project budgets for 2010-2013 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 and statewide capital needs assessments.

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:

Capital Link is a non-profit organization that has worked with hundreds of health centers and Primary Care Associations over the past 15 years to plan capital projects, finance growth and identify ways to improve performance. We provide innovative advisory services and extensive technical assistance with the goal of supporting and expanding community-based health care.

Established in the late 1990s as a joint effort of the National Association of Community Health Centers (NACHC), several state-based Primary Care Associations (PCAs), and the Bureau of Primary Health Care, Capital Link grew out of the community health center family and continues to support it through our activities. For more information on our services and additional free capital planning resource documents, visit us online at www.caplink.org.