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Cost of ownership

What's the real cost of ownership?

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By **Tim Cool**

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I come from a background of planning and building ministry facilities, having been blessed to investing 23 years of my life in serving churches to develop new and renovated ministry facilities. That phase of my life brought me great joy and fulfillment.

But now I am very burdened by the millions, even billions, of dollars that are spent each year on religious construction without a clear understanding of the “real” cost of ownership. I also think that most ministry leaders do not understand that the ongoing costs eclipse the initial costs and do so in a much larger way than you would imagine.

Look at the real cost of ownership of our ministry facility:

1. INITIAL COST. Assume that our new ministry facility is 30,000 square feet and we can have it built for \$125 per square foot; of that, the construction partner’s fee was 9 percent and we paid the design professional a fee of 7 percent of the construction value. We will also assume that the land has been paid for and is unencumbered of debt. So what do the numbers look like?

INITIAL COST: $30,000 \text{ SF} \times \$125/\text{SF} = \$3,750,000$ plus design fees = \$4,012,500

Construction Partner Fee: $\$3,750,000 \times 9\% = \$337,500$

Design Professionals Fee: $\$3,750,000 \times 7\% = \$262,500$

2. COST OF “MONEY.” Assume that we borrowed \$3 million to pay for the project and we did so based on a 15-year loan at 6 percent; but we paid it off in seven years. In this scenario, you will have paid about \$1.1 million in interest.

3. COST OF OPERATION. Based on our research and benchmarking provided by the International Facility Managers Association, the average church in America will spend \$4.50 to \$7.00 per square foot annually for janitorial services, utilities and general maintenance. In addition, a church will spend an additional amount in capital improvements that will be in the \$1.50 per square foot range (if the capital reserve account is started at the time construction is complete). This number grows significantly higher if you neglect the capital reserve account during the early years of the building’s life cycle.

For the sake of this exercise, let’s assume that we will spend \$6.50 per square foot for operational and capital reserve items. This may be low, but we want the calculations to be realistic.

$30,000 \text{ SF} \times \$6.50/\text{SF} = \$195,000/\text{yr.}$

Assume a 40-year life cycle (which is not that long) at 1.5 percent per year of inflation. Remember, that operational costs are perpetual and paid for with inflated dollars, so this is going to increase, and 1.5 percent is probably too low.

$\$195,000/\text{yr} \times 40 \text{ years} = \$7,800,000 + 60\%$ (1.5% per year inflation for 40 years...without compounding) = $\$12,480,000$

So look at this:

1. Initial costs including design – \$4,012,500

2. Cost of Money – \$1,100,000

3. Cost of life cycle operations and capital reserve – \$12,480,000 (that is \$416/SF...OUCH)

TOTAL COST OF OWNERSHIP = \$17,592,500

Wow, that's a big number. But here is the shocking part:

1. The combined cost of the construction partner and the design professionals (\$600,000 in this example) is only 3 percent of the total cost of ownership

2. The construction cost is only about 20 percent of the total cost of ownership

3. The interest paid is only about 6 percent of the total cost of ownership

4. Leaving 71 percent of the total cost of ownership in operation costs and capital expenditures.

So what costs more: the initial cost or the cost after you occupy? I think the numbers speak for themselves. Do we invest the same amount of time and energy in planning your operational costs as we did when we developed our master plans and floor plans?

The fees that encompass only 3 percent of the total cost of ownership feel so important at the time we hire them, but the decisions, direction, means and methods that this team suggests and implements will be with you for the life of your buildings. Do we have our eyes on the real cost of facility ownership?

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