Soft Costs as They Relate to Building Projects

When planning for a capital improvement project there are two budget numbers to consider, the Maximum Allowable Construction Cost (MACC), and the Total Project Cost (TPC). TPC includes the MACC and “soft costs.” For a building project budget, soft cost is an expense item that is not part of the direct construction cost or “hard cost.”

**Hard Costs**

You might also hear hard costs referred to as “brick-and-mortar costs.” Either term refers to any costs associated with the physical construction of the building and any equipment or furniture that is built-in. Hard costs can be related to the building (structure, finishes, built-in furnishing, and equipment), the site, and to the landscape. All labor and materials required for construction are included in hard costs. In terms of the building site, all utilities, life safety systems and equipment, HVAC systems, paving, grading, etc. are considered hard costs. Hard costs associated with the landscape are based on the architectural drawings and include grass, trees, mulch, fertilizer, etc. Generally, hard costs are more tangible and therefore easier to estimate.

**Soft Costs**

In short, soft costs are any costs that are not considered direct construction costs. Soft costs include everything from architectural and engineering fees, to legal fees, pre- and post-construction expenses, permits and taxes, insurance, etc. Soft costs also include movable furniture and equipment (as opposed to fixed equipment included in hard costs) such as tables and chairs, computer data equipment, telephone systems, etc.

**Soft cost may include:**

- Professional Fees (Architecture and engineering)
- Contingency
- Taxes
- Utility Extension
- Moveable Furniture
- Specialty Fixtures
• Moveable Equipment
• Construction Quality-Control Testing
• Building Commissioning
• Permitting
• Land Survey
• Geotechnical Report
• Environmental Abatement (asbestos or lead paint)

The budget is established by the owner, not the design team or the building contractor. If a church has $350,000 to spend, then that is the budget for the project, and the scope of work should be developed to reflect such. That may mean the entire project cannot be built at this time, and some parts must be phased for future construction. As stated above, there are two budget numbers to consider, the Maximum Allowable Construction Cost (MACC) and the Total Project Cost (TPC). TPC includes the MACC and "soft costs." For budget purposes, TPC is MACC x 1.3; or conversely, MACC is TPC x .7. So if $350,000 is the TPC, then $245,000 is available for construction (MAC); if $350,000 is the construction budget, then $455,000 is the total project cost (TPC). These numbers are rules of thumb for initial budgeting.

An architect’s fee should be established as a percentage of the construction cost, which is based on the owner’s construction budget (MACC). Typically, the architect will use a fee schedule to determine their fee percentage based on the MACC and the type of project (complexity). Generally, an architect’s fee will include full service design through construction administration; although a fee can be broken down into smaller tasks if that is desirable. Typical phases of design are space programming, schematic design, design development, construction documents, procurement, and construction administration. An architect’s fee includes basic services, which are architectural, structural, HVAC, plumbing, and electrical engineering. Additional services not included in the architect’s fee are landscape design, civil engineering, travel, among others; these fees could be added to the architect’s basic fee or paid directly by the owner. Additional services added to the architect’s fee as typically will have a 10% markup by the architect.

As you embark on a capital improvements campaign, please note the difference between construction cost and total project cost. Construction cost is what the church will pay a contractor to build or renovate a facility. Total project cost is the actual amount the congregation will need to raise to build and occupy a new or renovated facility. Total project cost includes the construction cost and the soft costs.
Contact LCEF to find an Architectural Advisory Committee member near you for additional information.

The mission of the Lutheran Church Extension Fund is to support The Lutheran Church—Missouri Synod in the sharing of the Gospel of Jesus Christ by being a Christ-centered servant partner, ensuring that funds and services are available now and in the future.

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