

Church Construction Finance Outlook



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The Feds have raised interest rates 9 times since June 2004. Traders expect at least one more increase this year. With the prospects for higher short-term rates the spread between short-term rates and long-term rates has continued to narrow. This means long-term interest rates for construction and permanent financing will not increase at the same rate as the Fed increases the short-term rates. Signs that inflation is under control should limit a large increase in long-term rates.

The increase in long-term interest rates does not mean churches cannot afford to go into building programs. What it does mean is that churches will have to decrease the amount of square footage that can be built for the same affordable monthly mortgage payment. When interest rates increase, square footage decreases. When interest rates decrease, square footage increases.

The Prime Rate was 4% one year ago. It is now 6%. However, the Church construction market remains strong at this time, with churches that are needing space still planning to move forward with their building programs in spite of the interest rate increases that have been seen over the past year.

Pricing increases and volatility are major issues for any type of construction going on now. Prior to 18 months ago, a firm could quote a price for a building and hold the price for 6 to 8 months without being impacted by escalating costs. Today, with components such as steel, concrete, roofing materials, and roofing insulation rising, it is much more difficult for contractors to hold the quoted prices for very long. According to industry services, this trend will continue through all of 2005 and into much of 2006.