

# Compensation

# Table of Contents

3	.....	Introduction
4	.....	Stipulated Sum Agreement
5	.....	Percentage of Construction Cost
6	.....	Basic Compensation Schedule
7	.....	Representative Project Types
8	.....	Reimbursable Expenses
9	.....	Establishing the Architect's Fee
11	.....	Schedule of Payments
12	.....	Contact

# Introduction

Compensation for architectural services is typically rendered by one of several methods:

- *Stipulated Sum Agreement* – which stipulates a specified total compensation for the architect’s work
- *Percentage of Construction Cost* – where the architect’s compensation is based upon the complexity and dollar value of the project
- *Unit Pricing Contract* – where compensation is determined by square foot amounts of building area or by per-drawing amounts for clients
- *Multiple of Direct Payroll Expense* – an equation based upon an hourly fee where the extent of architectural services cannot be determined in advance, that is, a totally undefined scope of work
- *Compensation Plus Office Costs* – where the architect is compensated for professional services plus the payroll cost of technical personnel and the proportionate amount of office overhead
- *Per Diem or Hourly Rate* – applicable to services such as consultations, reports, opinions and expert testimony; travel time is properly charged as part of the work
- *Total Costs* – applicable to services such as consultations, reports, opinions and on invested capital.

# Stipulated Sum Agreement

In this method of compensation, the architect's fee is agreed upon as a specific total dollar amount.

- the architect agrees to perform certain definite tasks, for which the client agrees to pay a certain definite amount.
- this requires a clearly defined scope of work
- some lump-sum contracts include reimbursable expenses
- other lump-sum contracts allow for reimbursable expenses to be invoiced outside the general lump sum

# Percentage of Construction Cost

In this common method of compensation, the architect's fee is a percentage based upon the complexity and dollar value of the project. Please see the Basic Compensation Schedule on page 5 and Representative Project Types on page 6.

For compensation purposes, *construction cost* includes all work for which the architect rendered service, whether by drawings, specifications, advice or consultation. This compensation applies to basic architectural services, including all normal architectural and engineering services required.

Construction Cost, the market cost of all work, includes such things as:

- construction contract fees
- contractor's labor, materials, overhead and profit
- work furnished by the Owner
- contingency

Construction Cost does not include such things as

- cost of the land
- architect's fees

# Basic Compensation Schedule

*When all construction is let under a single building construction contract, shown as a percent of Construction Cost*

	A	B	C	D	E	F	Project Type
5,000						15.0	
10,000						13.0	
25,000						13.0	
50,000	10.0	13.5	14.0	13.0	15.0	12.0	
100,000	9.5	13.3	13.5	12.5	15.0	12.0	
200,000	9.3	13.1	13.3	12.3	15.0	12.0	
300,000	9.1	12.5	13.1	12.1	14.8	12.0	
400,000	9.0	12.2	13.0	12.0	14.7	12.0	
500,000	8.9	11.9	12.9	11.9	14.6	12.0	
600,000	8.8	11.8	12.8	11.8	14.5	12.0	
800,000	8.6	10.6	12.6	11.6	14.4	12.0	
1,000,000	8.4	9.4	12.4	11.4	14.3	12.0	
1,500,000	8.2	9.2	12.2	11.2	14.3	12.0	
2,000,000	8.0	9.0	12.0	11.0	14.3	12.0	
2,500,000	7.8	8.8	11.8	10.8	14.3	12.0	
3,000,000	7.7	8.7	11.7	10.7	14.2	12.0	
4,000,000	7.6	8.6	11.6	10.6	14.2	12.0	
5,000,000	7.5	8.5	11.5	10.5	14.0	12.0	

- *Note 1* – Add 1.2 to the basic rates above for construction contracts involving remodeling, alteration of or addition to existing buildings.
- *Note 2* – Subtract 1.0 from the basic rates above for construction contracts involving reuse of construction documents. Then determine and add a fixed fee or hourly rate for changes required to documents.
- *Note 3* – Add 0.4 to the basic rates above in situations where separate bids are taken and the successful bidders are assigned as subcontractors to the general contractor.
- *Note 4* – Add 1.0 to the basic rates above if separate building contracts are let.

# Representative Project Types

*Typical representative projects, based upon the level of project complexity, to be used with Basic Compensation Schedule to find Percentage of Construction Cost*

## **A**     *Modest*

including such building types as warehouse, store, garage, parking ramp, loft building, utility building...

## **B**     *Normal*

industrial building, apartment building, office building, public housing, fire station, bank, city hall, hotel, college building, department store, dormitory, food service, school, shopping center, administration building, recreational building, religious education building...

## **C**     *Complex*

laboratory, medical office, dental office, veterinary office, nursing home, health clinic, assisted living, medical research facility, scientific research facility, power plant, library, auditorium, concert hall, theatre...

## **D**     *Religious*

church, synagogue, mosque, chapel...

## **E**     *Residential*

private residence, vacation home, condominium...

## **F**     *Site Development*

including such work as site planning, landscaping and site furnishings, outdoor lighting, streetscaping, playground...

## Reimbursable Expenses

Reimbursable expenses are billed to the client in addition to the basic compensation and include actual expenditures made by the architect in the interest of the project for such incidental expenses as

- long distance telephone calls and communications
- fees paid for securing approval of authorities having jurisdiction over the project
- postage, shipping and handling of drawings, specifications and other documents
- professional liability insurance if requested by the Owner
- transportation in connection with the project
- professional fees of architectural consultants, including structural, mechanical and electrical engineers if required.
- plotting of computer aided drawings
- reproduction of drawings and specifications, excluding copies for the architect's own use and duplicate sets at each phase for the owner's review and approval

# Establishing the Architect's Fee

The first question usually asked by the client is, "What will it cost me to hire an architect?" In order to answer that question accurately, the architect and client should prepare along the following lines:

## *Develop an Itemized Scope of the Work*

- client and architect work together to understand and to agree upon the extents of the project, and to develop a list of tasks to be performed by the architect
- develop a list of client expectations of each task

## *Create a Schedule for the Design and for the Project*

- schedule each task to be performed
- assign priorities as applicable
- use milestone charts for short projects with few participants and little interrelationship between activities
- use bar chart or full wall schedule for complex projects

## *Designate Team Members*

- architect identifies architectural staff members who will work on the project
- consultants identify consultant staff members who will work on the project
- architect and consultants develop man-hour estimates for each task – these are only for the creation of a price quote and may not be specifically reflected in the final contract

## *Set the Project's Quality Level*

- client and architect establish design criteria and the level of quality
- client and architect decide upon the number of alternatives that the architect shall pursue

- the exploration of additional alternatives significantly in excess of the number agreed upon will be considered additional time and expense

#### *Discuss Intrinsic Risks*

- the architect will consider the risks involved in accepting this commission – for example, taking on a large project may mean that the architect will have to turn down a future project for lack of manpower
- the architect must consider technical risks inherent in accepting projects with unusual obstacles or constraints – liability should be discussed as appropriate
- clearly define the change procedure in order to insure that the architect will not be asked to make a major changes in scope without commensurate changes in fee
- for the purposes of developing a price quote, the architect must assign a profit figure to the project

#### *Establish a Price Tag for Design Services*

- once there is agreement on the five stages above, it is time to put together a price quote.
- quote line items from the agreed upon scope of the work, building up a composite price out component elements
- this will allow the client to see where the money is being spent, and to have choice in which tasks are to be performed
- price quote is based on overall value to the client, not cost + profit
- design fee is a small fraction of lifetime costs, including maintenance
- good design saves over time – this is the value of a design professional
- reimbursables shall be quoted at unit cost

# Schedule of Payments

Payments are normally made in monthly installments, in proportion to the services performed, to increase compensation for basic services to the following percentages at the completion of each phase of service. Retainer is credited to the Owner’s account, and is applied incrementally during the Construction Phase.

- *Retainer*..... 10%
- *Schematic Design Phase* ..... 15%
- *Design Development Phase* ..... 35%
- *Construction Documents Phase* ... 75%
- *Bidding and Award Phase* ..... 80%
- *Construction Phase* .....100%

## Let's discuss your project

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