

Serenity Architecture, Co.

Architectural and Engineering Fees

There are numerous ways to calculate architectural and engineering fees for your project, including lump sum (fixed fee), percentage of construction cost, hourly rate, and cost-plus. We will discuss the first three here, as they are the most prevalent for private sector projects. We will also discuss some typical fee ranges for a number of projects types, as well as the range of hourly rates charged by Firms.

LUMP SUM/FIXED FEE

Lump sum is by far the most prevalent fee structure for private sector projects. The Client provides information to the Architect regarding what they want and need, their site, the services that they want, and any other relevant information; the Architect analyzes the information, asks questions, and then estimates the fee required to complete the required work; and then the Architect presents detailed proposal to the Client. This proposal will contain a description of the project, detailed scope of services, clarifications and exclusions, proposed design and engineering schedule, and the proposed fee. Some negotiations and revisions may follow, and then a contract is signed and work begins. At this point both parties are "locked in" with regards to scope and fee.

For a lump sum fee, it is imperative to have a clear mutual understanding as to the project and services, as well as the schedule. Otherwise, it may not be possible for the Architect to properly estimate the fee and the Client may expect to get something that is not included.

With this type of arrangement, the Architect must provide the agreed upon services for the agreed upon fee, and the Client must provide additional compensation if there are significant changes to the project scope, additional services are provided, or there is a significant extension in the project schedule that are not of the Architect's doing. It is important for the Architect to clearly communicate with the Client, in a timely manner, any item which may exceed the scope of the contract. The additional compensation can be provided on either an hourly rate basis, per rates that have already been agreed upon in the contract, or they can be provided on a lump sum basis, per a separate proposal provided by the Architect and mutually agreed upon.

This type of fee is simple and straightforward, but it can have drawbacks, especially if any part of the project is unclear, and if there is not good communication between the parties. We will discuss this more in the Hourly Rate section.

PERCENTAGE OF CONSTRUCTION COST

This method of compensation for architectural and engineering services has a long history. In simple terms, the fee is expressed as a certain percentage of a mutually agreed upon, estimated total construction cost. In other words, we agree that the total construction cost, which is generally arrived at using benchmark projects and/or similar completed project square foot construction costs, will be \$5,000,000 and that our fee will be 5% of that cost. So, our fee will be \$250,000.

It seems very straightforward, but there are a number of flaws with this type of fee arrangement, not the least of which is that the Architect is penalized for working in your best interest to reduce project cost, or if a very competitive construction market leads to "artificially" low bids. Similarly, the Client is penalized for a "hot" construction market leading to unusually high bids.

Simply put, if we estimate, and agree, that a 10,000 fire station is going to cost \$4,000,000 and our fee will be 6%, and then the cost comes in at either \$3,000,000 or \$5,000,000, the amount of work that we did is still the same, so why should the fee change? We typically try to avoid this type of fee arrangement.

That is not to say we do not still use this as a benchmark in fee calculation. At present, percentages range from 5-9% for new projects and 8-12% for complex renovations, though they can be much lower. We will discuss this a bit more, later.

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HOURLY RATE

This arrangement is exactly what it appears to be: we will perform agreed upon services for you on an hourly rate basis and you will compensate us for each hour spent working on your project, as documented with monthly reports and timesheets. Many Clients shy away from this type of arrangement as they view it as a “blank check” for the Architect, ripe for abuse. As with any arrangement, there must be trust, honesty, and cooperation between the parties. Architect’s like this type of arrangement because it allows us to be covered for any unknowns, and it allows us to provide a high level of service to you without the constant analysis as to whether or not something was included in the lump sum cost, or not. Unfortunately, with today’s constant downward pressure on fees, and razor thin margins, this is an analysis of which we must be very cognizant at all times.

This fee structure is best when the project parameters, or needed services, are not clearly known or defined. In this scenario, we still provide a proposal for services, based on our general understanding, but it may not have the clarifications and exclusions as the lump sum proposal does. We will provide whatever services are deemed to be necessary, and agreed upon, as we proceed. As with the lump sum proposal, we will provide our standard hourly rate sheet though, in this case, it will apply to the entire scope, not just extra services.

At present, a typical hourly rate range might be \$100—\$250 / hour.

“HYBRID”

The “hybrid” fee arrangement, as we call it, is a very attractive structure as it covers the Architect for the portions of the project that are largely out of the Architect’s control, but it locks in for the Client the portions of the project that are easily definable. In this structure, the design development and construction document phases are completed on a lump sum basis, while the planning, design, and construction administration phases are completed on an hourly basis.

Why? It is very easy for the Architect to put costs to the DD and CD phases, as these phases are almost entirely within the Architect’s control. We have done this before. We know how many drawings, and how many hours per drawings are needed for, say, a 50,000 sq.ft. light industrial building, or a 10,000 sq.ft. fire station. There are few variables and unknowns.

Conversely, the design and construction administration phases are largely outside of our control, and highly variable. You might not have a clear vision as to what you want or need, leading to “excessive” design time that we could not have anticipated. One contractor may look at a set of drawings and build the building quite successfully. Another might look at the same set and submit 40 requests for information, or alternate systems and materials, to us. The construction duration may drag on for months longer than anticipated, leading to additional time and cost for us. All of these things are outside of our control. We could still complete these phases on a lump sum basis, and then submit requests for additional fees for what we view as additional service, however, our decades of experience tell us that this usually ends up in many contentious “discussions”, which can severely damage our relationship with you and adversely affect an otherwise smooth and successful project.

We firmly believe that this type of fee arrangement is the most fair and equitable for both parties and is the structure that gives us the best chance for living up to our name and maintaining **SERENITY** for all during project process.

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FEE CALCULATION

How do we calculate our fee? We typically use three different methods: hour calculation, sheet calculation, and percentage of construction cost.

For the hour calculation method, we simply make a list of all anticipated tasks and estimate the number of hours that will be spent by each team member classification/billable rate. For instance, for the design development task of developing wall details, we might have 20 hours of Project Architect time, and 40 hours of project designer/drawing time. We then add up all of the categories, and then we have our fee.

For the sheet calculation method, we develop a sheet index, or list of anticipated drawings, and apply a dollar amount per sheet. For instance, our past project experience might tell us that for a small design-build light industrial building we generally spend \$2,500 per sheet and for a large design-build fire station, we generally spend \$5,000 per sheet. We apply the per sheet cost to the total number of sheets, and we have our fee.

For the percentage of construction cost, we estimate the total construction cost of the project, based on our past project experience, current per square foot costs, and, often, based on input from General Contractors with which we frequently partner. We then apply a percentage to that number to come up with our fee. How do we come up with percentage? Well, there are no set standards today. That ended in the 80s when it was deemed that Architects could not work with each other in setting standard fee tables. Before that time, there were tables that would say that a hospital project of 100,000 sq.ft. will have a fee of X%, for instance. That is not to say that there are not guidelines. We still classify projects in a number of complexity categories and by cost range, and know the percentage range for those. It is just wide open now for any firm to continue to push the percentage ranges down.

In reality, we generally use all three methods, as comparatives, in calculating our fee, and then still make adjustments after that. For instance if our hourly or sheet calculations end up being 8% of anticipated construction cost, but we know the range for the project will likely be 5-6%, we may adjust. Further, if we know there is strong competition, we may adjust down further. Or, we may decide not to pursue if we feel that we will have to sacrifice the level of service to meet the tight margin.

CONCLUSION

We hope that this gives you a good picture as to how our architectural fees are calculated here at Serenity Architecture Co. As with everything, we understand that budget rules most projects. However, we strongly urge you to not just look at a low fee in making your decision to select an A/E partner. There are many factors to be considered, and fee is but one. Qualifications, experience, and personal chemistry are all factors that should come into play as well. Please also refer to our "Managing Expectations" for additional information that will be valuable to you in making your selection.