



## TEST BEFORE YOU INVEST'S FREQUENTLY ASKED QUESTIONS

### BUILDING CONTRACTS – LUMP SUM VS COST PLUS

If you're getting close to appointing a builder, one of the most important decisions you'll make is choosing the right construction contract. In the residential space, the two most common options are a **Lump Sum** (also known as Fixed Price) contract and a **Cost Plus** contract.

While both are legally recognised and used across all kinds of projects — from modest renovations to high-end new builds — they each come with distinct mechanisms for pricing and risk. Below is an outline of what they are, how they work, and the pros and cons of each.

#### **Lump Sum (Fixed Price) Contract**

This contract type sets a pre-agreed fixed price for the entire construction scope before work begins. It's generally based on a fully documented set of drawings and specifications.

##### ☒ **Pros:**

- Budget certainty: The total cost is known upfront (subject to variations).
- Easier finance approvals: Lenders often prefer the predictability of lump sum contracts.
- Risk sits more with the builder: They wear the cost of minor overruns or inefficiencies.
- Straightforward administration: Payments are typically made in staged instalments.

##### ☐ **Things to watch out for:**

- Scope must be well-documented: Any gaps, changes or errors may trigger costly variations.
- Tends to be more conservative: Builders often 'pad' the price to cover unknowns.
- Less transparency: You don't always know what component costs what.

#### **Cost Plus Contract**

A cost plus contract allows the builder to charge actual costs incurred on site, plus a fixed percentage or fee. It's more flexible, but also more open-ended.

##### ☒ **Pros:**

- Flexible for evolving designs or scope: Suitable if documentation is incomplete or changes are likely.
- Transparent costs: You see actual invoices and builder margins.
- Often faster to begin: Can be used earlier in the documentation process.



#### **⚠ Things to watch out for:**

- No capped total: The final cost is unknown until the end.
- More admin and oversight: You'll need to review frequent invoicing and cost reports.
- Risk sits more with the owner: Overruns, inefficiencies, or delays can add up.
- Financiers may be hesitant: Some banks require additional scrutiny or won't fund cost plus projects at all.

#### **So which one should I use?**

There's no one-size-fits-all answer. The best option depends on your budget, level of documentation, tolerance for risk, lender requirements, and how much flexibility you need throughout the build.

It's also important to be clear on your own priorities — whether that's cost certainty, design flexibility, speed of delivery, or overall quality. Every client, project and brief is different, so deciding what matters most to you will help guide the best contract choice.

If you're unsure, this is something worth workshoping with your architect, builder and/or project manager. A strong team and clear scope will always help set you up for success — no matter the contract type.

#### **Need Personalised Advice? We're Here to Help!**

*If you require further advice or tailored guidance for your specific situation, feel free to book a consultation with one of our experienced professionals. Our team can provide you with expert insights and practical solutions to ensure you're making the most informed decisions. **Contact us today at [www.testbeforeyouinvest.com.au](http://www.testbeforeyouinvest.com.au) to schedule a consultation.***

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