

The Framework to Project Success



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Section 4.1 – Budgets

How a Budget is Established during Planning

Creating a budget is an ongoing process. It involves collaboration between your architect and builder throughout the design, approval, and planning stages. This is why it's crucial to know your desired cost and your not-to-exceed cost. Here is how your budget evolves through each of the following design phases...

1. **Preliminary Drawings:** As you discuss the overall project vision, goals, and must-haves, you will set an initial budget range and project scope with the architect. You'll review basic drawings and sketches to brainstorm layout and general design direction. This is where you'll want to be very clear about your priorities. Once you agree on the design direction, you should get a (very) rough budget range. Architects and builders do this from past project experiences.
2. **Schematic Design (SD):** Here the architect will develop a more detailed layout, including exterior design concepts and the basic mechanical, electrical, and plumbing systems. The architect revisits the budget with rough cost breakdowns by trades and construction phases (e.g., framing, foundation, finishes, etc).
3. **Design Development (DD):** This phase is often when the builder is brought in to review the plans to verify feasibility and send the plans to subcontractors to get initial estimates and bids. The goal here is to finalize the design details, so that the budget can get more precise.
4. **Construction Documents (CD):** Once the CDs are finalized, this is when the project officially goes out to bid. The compiled bids represent the most accurate budget estimate. If the total bids come in over budget, value engineering (VE) choices are made to select more cost-effective materials or alter finishes.

How to Avoid Going Over Budget

Research shows approximately 85% of residential construction projects go over budget. On average, projects exceed their budget by 10% – 20%. We've seen much worse. Here are some tips to limit how much

you'll go over budget....

- **Finalize All the Details of Your Plans:** Your goal should be to finalize all your selections before work begins on site. When all your selections are finalized in advance, bids come back as accurate as possible.
- **Set a Contingency Fund:** A contingency fund should typically be 10% – 20% of the total budget. This is money isn't included in other budget categories but it's factored into the total budget from the start as a separate category. By including it in your main budget initially, you'll be better prepared when you need it.
- **Minimize Change Orders:** Any addition or alteration to the original plan will add costs and extend the schedule. It often costs more than you think because of the additional administrative work. Avoid changing any element of the scope once construction has begun unless it is necessary. If you have to make changes mid project, you have very little control over the cost increases.
- **Track Spending and Review Costs Regularly:** Schedule budget reviews with your builder and/or architect at pre-determined times. This could be for every monthly payment or at key milestones of the project. The goal is to keep everything transparent and catch cost overruns early as they are broken out by project phase.

What you Need to Know when Reviewing Your Budget

Our goal is to help you understand how and where you are spending your money. It's probably the most important element of any budget. Transparency.

Our budget template was designed to simplify your perspective on how you spend your money. This is based on our past project budgets, using cost-plus contracts. We break out every expense in more detail than you probably want. As you look to understand the bigger picture of your project, you will notice how the design process produces selections that become budget items. With budget items becoming scheduled tasks in a future section.

One key step is seeing your phase or category costs as percentages of the total job costs. This can give you a baseline of where you are spending more than the average homeowner. The most recent data of the national percentages are listed below...

National Association of Home Builders Costs

- **Permits – 4.9%**
- **Architecture & Engineering – 2.5%**
- **Excavation & Foundation – 11%**
- **Framing – 20.5%**
- **Exterior Finishes (Siding and Roofing) – 8.4%**

- **Windows and Doors (including the Garage) – 3.4%**
- **Mechanical Systems – 17.9%**
- **Drywall, Insulation, Interior Doors, and Trim – 11.7%**
- **Lighting Fixtures – 1.1%**
- **Cabinets & Countertops – 4.5%**
- **Appliances – 1.6%**
- **Flooring – 3.3%**
- **Plumbing Fixtures – 1.3%**
- **Firepace – 0.4%**
- **Landscaping – 2.3%**
- **Outdoor Structures – 2.8%**
- **Clean Up – 0.6%**

The next section is a budget template spreadsheet. It has over 150 line items. The goal is to arrive at category totals. That way you can assess things from the big picture and work backwards into the little details to make more informed decisions.