



# compensation types

## Fees

### COMPENSATION TYPES

There are several ways of getting paid for architectural services; the choice of method of compensation depends on the client, the project, and the scope of the services.

#### FIXED FEE (STIPULATED SUM)

THIS type of compensation is used when the scope of work is **clear** and has been carefully defined, the owner **understands** the services included, and the architect **can produce** the work with the services and time planned. Fixed fees should be carefully calculated to avoid losses when the cost of the services exceeds the project budget.

- **RISK CONTROL:**
  - Include a contingency amount in the fixed fee.
  - Ensure the scope of services is complete and the Owner understands it.
  - Include in the contract ways to deal with additional and unexpected services and how the fee will be adjusted.

#### HOURLY BILLING RATES

Very flexible, this fee option is used when the scope of work is **unknown**. It can be applied on its own or for portions of the project where the scope can vary, such as additional services, services provided for LEED certification, or commissioning.

- Hourly rates typically include direct salary, benefits, overhead, and profit.
- **RISK CONTROL:**
  - Hourly billings **with limits** (not to exceed a certain amount) are risky and should be avoided.

#### COST PLUS FIXED FEE

In these contracts the architect is paid for the agreed expenses for a project (salaries, benefits, and firm overhead), **plus** an additional **fixed fee** for its services. This is used to avoid open-end fee arrangement but there are many unknowns to establish a stipulated sum.

- This type of fees limits potential profits but reduces risk.

### UNIT COSTS

These are fees which are based on cost per square foot of design, building, or other unit, for example, interior design can be priced by square foot.

- Estimating by unit price is **difficult** because not all units might take the same effort. This has to be considered in the estimation.

### PERCENTAGE OF CONSTRUCTION COST

This method ties the architect's compensation to the cost of construction which is really not known until the project is complete. This is **very risky** for the architect.

- **RISK CONTROL:**
  - Use percentage of "Cost of the Work" that is defined by the AIA as the "cost of the building as designed by the Architect," so if the cost of Construction varies the fee of the Architect is not affected. If not using an AIA document ensure this definition is included in the contract.

### REIMBURSABLE AND NON-REIMBURSABLE DIRECT COSTS

When taking this approach, be careful to include the costs which are related to the project but not included in the firm's overhead standard costs, such as travel, computer expenses, etc.

- These costs might be reimbursable (directly billed to the Owner) or non-reimbursable (covered by the architect's fees).

*Information in this module is taken from the AIA The Architect's Handbook of Professional Experience, 11.2 Architectural Services and Compensation by Clark S. Davis FAIA*

When working on a project it is good practice to explain to the team how profits are calculated and make the team aware of the need for efficiency and for establishing good practice procedures from the beginning.

Consider updating the team regularly on the status of the project in terms of hours using the Project Work Plan.