

PREPARING THE CAPITAL BUDGET

The capital budget, which will be revised as you learn more about the site and decide how to design and equip the space, usually entails four steps:

- 1. Start with an initial estimate:** This early projection of costs will give you a sense of how much money you'll need and whether it's feasible to proceed. (See "Two Methods for Quickly Estimating the Cost of a Project" on the following page.)
- 2. Revise your budget when you select a site:** At this point the purchase price will be known. As your architect prepares preliminary designs and engineers look for environmental hazards or structural issues, you will learn about additional costs – such as the expense of removing asbestos or lead. At this stage, your development budget should have several large line items such as site acquisition, architectural services, other soft costs and construction. Your architect might consult a "cost estimator" to approximate the "hard" construction cost.
- 3. Revise your budget when the site is designed:** As the planning proceeds, you can increase the level of detail and accuracy of the development budget. For example, the "construction" line of your budget will expand to include more detailed expenses such as excavation, site preparation, demolition, carpentry, drywall, plumbing and electrical work.
- 4. Revise your budget when you receive bids from contractors:** Labor and material costs change constantly, so the most accurate budget will be one that reflects the construction contractor's bid.

WHEN THE CONTRACTOR'S PRICE IS HIGHER THAN YOUR BUDGET: Once contractor bids are in hand, compare the construction costs with your funding commitments. The scope of work and the price you can pay the contractor may need to be adjusted downward based on your available funds. This process is called **"VALUE ENGINEERING,"** and typically involves substituting less costly material or removing less essential design features. If you end up needing to reduce the cost of the project, be sure to carefully consider the impact on quality or durability of eliminating certain features or using particular materials.

Don't forget about a contingency: Even after construction begins, unexpected situations may lead to additional costs. For example, during excavation the contractor may discover the foundation wall from a building that previously stood on the site, and you will need to pay for the unplanned expense of demolishing and disposing of the wall. Make sure to include a construction "contingency" of at least 10 percent of the construction budget. If renovating an existing building, the contingency should be 15 percent of the construction budget, since it's more likely you'll encounter "surprises" when you begin work on an old structure rather than vacant land.

