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Appendix I

to the Recommended Guideline for the Accord Policy on the Development of Architects Compensation

Comparative advantages and disadvantages of the methods for defining the architects compensation

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Comparative advantages and disadvantages of the methods for defining the architects compensation

A comparison of the advantages or disadvantages of the methods for defining the architects compensation must take into account the following criteria:

- a. Transparency, traceability of the basis for establishing the compensation
- b. Adaptability + flexibility towards changing economic and professional conditions as well as to variations of project parameters
- c. User friendliness
- d. Predictability of the final compensation at an early stage of the project
- e. Preliminary expense for the development of the method
- f. Comparability between countries
- g. Compliance with competition law
- h. Consumer friendliness

1. Time Charge Compensation 1 (de facto working time, final statement retrospectively)

- a. Once the hourly rate is agreed this method is transparent and traceable as far as the calculation is concerned.
On the other hand the average client cannot judge whether the amount of hours charged is appropriate to the service and resembles effectiveness. Over all the transparency of this method is a little less than sufficient.
- b. Adaptability and flexibility towards changing economic and professional conditions as well as to variations of project parameters are very high. The only difficulty may arise from an agreed hourly rate under unusually rapidly changing economic conditions
- c. The method is very easy to handle, so the user friendliness is good
- d. Non-predictability of the final compensation is the eminent characteristic of this method. There remains a high range of uncertainty about the final compensation for the client, while the architect is vulnerable if there is a dispute.
- e. Only management tools to calculate the hourly costs of the architects office and for time management are needed. No survey, no data collecting are necessary.
The necessary preliminary expense for the development of the method is extremely low.
- f. The comparability between countries with the same pattern of the architects missions is very good – if the final compensation is predicted at the start or once the serviced is finished.
- g. The method, provided the hourly rate is freely negotiated between the parties and not enforced by state authorities or professional or other organisations, complies with competition law.
- h. Due to the deficits in a) and d) this method cannot be judged as consumer friendly

Closing remark.

The time charge compensation method has its right of existence as additional auxiliary method parallel to any other method to calculate extra time expense in case of unforeseeable disturbances in the regular process of the architects service – provided not the architect himself has to answer for the irregularity. There are also cases e.g. in existing structures where the full range and the amount of necessary architects services develops only with the progress of works.



2. Time Charge Compensation 2, Project-Type + -Size related (historical data)

Time charge compensation methods, based on the collection and statistical evaluation of historical data, are generally found as time consumption scales.

These scales show the appropriate average-amount of working hours necessary to perform a specific service. The figures depend on the following parameters:

Complexity of the planning task (type of building etc.)

cost-relation construction / mechanical

cost-relation raw construction / finishing construction

Size of building (gross floor area in m² or volume in m³)

New building / conversion / special services

Profile of services

- a. This method is transparent as far as the calculation is concerned.

The transparency of the survey and the statistical evaluation process which has led to the working hour figures cannot disclose itself to the average user of such scales.

A general reference to the representativeness and the reliability of the statistical basis and to the independence of the evaluators will be necessary. Adequate explanations must have the necessary quality to establish the client's trust.

The necessity to carefully calculate the hourly rates necessary to cover all costs and to allow for an appropriate surplus for risk and profit considerably strengthens the architects negotiation competence in comparison with methods which are mainly based on a fee per project unit or a percentage of the construction cost, e.g. methods 3. and 4.

Under these provisions this method is very transparent and its basis traceable.

- b. Adaptability and flexibility towards changing economic and professional conditions as well as to variations of project parameters are very good as long as they influence the parameters that determine the amount of chargeable working hours.
- c. The use of this method is of medium difficulty. The appropriate classification of the complexity of a project will never be absolute. It develops in discussions between client and architect and may take some time.
- d. The final compensation can be defined at an early stage – once all relevant parameters are clear.
- e. The necessary preliminary expense for the development of the method is very high. Data collection and evaluation are very time consuming. Data bases should be permanently expanded and updated.
- f. The comparability between countries with the same pattern of the architects services should be excellent. Differences between countries in the relation between construction cost and cost of the architects office have no effect on the comparability. However differences in administrative procedures, in climate and geology, in client's expectations and other matters make the comparison more difficult in reality.



- g. A completely and correctly described planning task leads to different compensations among market participants, due to their different hourly rates. The method, provided the hourly rate is freely negotiated between the parties and also provided the collection and evaluation of historical data is executed by independent experts and not enforced by professional or other NGOs, complies with competition law. As far as cost information systems are published by professional or other NGOs and not by state authorities in a legislation-backed process, competition authorities tend to have reservations. Competition rules are more strictly interpreted by the relevant authorities in some countries by comparison with others, as a result of cultural differences and perhaps economic pressures.
- h. From the architect's professional view the method may be judged as very consumer friendly.

3. Floor Area related Compensation

Fixed fees per m² gross floor area or useable floor area or per m³ Volume of the project are a relatively simple method, often used in the absence of more complex systems or fee scales. The parameters mentioned under method 2 could be applied with this method as well and so lead to a great variety of respective values per unit.

De facto in the existing examples this method is used in a very simple way without a high variety of values. They are not based on historical data and depend mainly on offer and demand respectively on the reputation of the single architect.

- a. This method is transparent as far as the calculation is concerned.
- b. In absence of any historical data basis the formation of the values per unit can be somewhat arbitrary and potentially not transparent.
- c. Adaptability and flexibility to changing project parameters are good because there were only very few parameters to influence the calculation unit from the beginning. Adaptability and flexibility towards changing economic and professional conditions are good as well as only the fee per unit has to be adapted.
- b. The use of this method is simple.
- c. The compensation can be fixed when the design is finished.
- d. The preliminary expense for the development of the method is almost nil.
- e. A direct comparability between countries with the same pattern of the architects missions and the same method is at hand. However differences in administrative procedures, in climate and geology, in client's expectations and other matters make the comparison more difficult in reality.
- f. As every market participant forms his personal unit-value, compensations may differ considerably. The method complies with competition law. As far as cost information systems are published by professional or other NGOs and not by state authorities in a legislation-backed process, competition authorities tend to have reservations and in some countries even to forbid the publication of suggested fee scales.
- g. The method is very rough and of inadequate adaptability to the specific characteristics of the project. Therefore it is not especially consumer friendly. But it may be quite useful for standard building types, for example.



4. Percentage Compensation

Percentage compensation methods which define the compensation as a percentage of the construction cost are based on the collection and statistical evaluation of historical data and found as fee scales / fee order as well. The exact definition of 'construction cost' is necessary.

The percentage depends on the parameters:

Complexity of the planning task (type of building etc.)

cost-relation construction / mechanical

cost-relation raw construction / finishing construction

Scale in xx steps / gliding scale

Level of construction cost (digressive scale, interpolation for intermediate values)

New building / conversion / special services

Profile of services

- a. This method is transparent as far as the calculation is concerned.

The transparency of the survey and the statistical evaluation process which has led to the percentage values cannot disclose itself to the user of such scales. In absence of a direct relation to a necessary working time input this is clearly more difficult than with method 2 and handicaps the architects argumentation potential in contract negotiations considerably. Even the general reference to the representativeness and the reliability of the statistical basis and the independence of the evaluators does not help very much.

Under these provisions this method is only of restricted transparency.

- b. Adaptability and flexibility to changing project parameters are good as they usually influence the construction cost. But see d).
- c. The use of this method is of medium difficulty. The appropriate classification of the complexity of a project will never be absolute. It develops in discussions between client and architect and may take some time.
- d. The characteristic of this method is that the exact final compensation is not defined at an early stage unless it is combined with the lump sum method. But at least cost calculation and controlling of the project narrows the range in which the final compensation will be found in the course of planning process from initially $\pm 10-20\%$ to $\pm 3-5\%$ at the beginning of the construction process.

A weakness of this method is the direct interdependence between construction cost and compensation: An architects special effort for cost saving building-design or construction is punished through a lesser compensation. A negligent handling of these factors on the architects side is rewarded with a higher compensation. Especially the latter effect has proven a psychological handicap of this method in the relation between architect and client.

- e. The necessary preliminary expense for the development of the method is high. Data collection and evaluation are time consuming. Data bases should be permanently expanded and updated. The development of the method is very similar to method 2, but it goes one step further by transmitting the working hours into a fee by taking certain average hourly rates at the time of the development as a basis.

Updating of the fee is much more complex than with method 2 because 3 major factors have to be considered simultaneously:

- Changes of cost level in architect's offices
- Changes of cost level in the construction industry
- Changes in the general relation between cost level in the construction industry and cost level in architect's offices



- f. The comparability between countries with the same pattern of the architects missions is only with restrictions. Existing differences between countries in the relation between cost level in the construction industry and cost level in architect's offices may considerably distort the comparability. In addition differences in administrative procedures, in climate and geology, in client's expectations and other matters make comparison even more difficult.
- g. A completely and correctly described planning task with defined construction cost leads to identical compensations for all market participants. There is no competition on price with this method. Therefore even the collection and evaluation of historical data by independent experts and the publishing of the so developed cost information systems by state authorities in a legislation-backed process, does not satisfy competition authorities. Competition rules are more strictly interpreted by the relevant authorities in some countries by comparison with others, as a result of cultural differences and perhaps economic pressures.
- h. From the architect's professional view the method seems consumer friendly. This view is not shared by competition authorities due to the factors mentioned under g.

4a. Fixed Percentage Compensation

The Fixed Percentage Compensation method is a sub-method of the Percentage Compensation method. It lacks the variety and high adaptability to project characteristics of the classical percentage compensation. This method is known from countries where by government decree the architects compensation is always xx% of the construction cost, disregarding parameters like type of building, complexity of the task and level of the total cost. Measured by usual professional standards this method may be regarded as a curiosity. It lacks all characteristics the world-association of architects holds indispensable for an appropriate compensation calculation method.

5. Lump Sum Compensation

The lump sum compensation method is not an independent method in its own. The architect usually uses one or several of the methods 1. - 4. to develop the lump sum. These methods have only an auxiliary function and do not become part of the contract.

With this method contract provisions for the compensation of special or additional services that occur in the course of the project process are of especially high importance.

- a. This method is as transparent as the method used for the formation of the lump sum.
The auxiliary method is here often of only secondary interest to the client. His main interest is the final definition of the compensation at an early stage. Under these provisions this method is very transparent.
- b. The adaptability and flexibility to changing project parameters is very poor. The basic idea of this method is, that such adaptability and flexibility is not necessary. Therefore contract provisions for the case of changing project parameters and the compensation of the additional services are of especially high importance.
Adaptability and flexibility towards changing economic and professional conditions are only of interest in connection with the method used for the formation of the lump sum.



- c. The use of this method is as simple or as difficult as the method used for the formation of the lump sum. The definition of the lump sum at an early stage is a special challenge to the responsibilities of the architect with regard to the economy of his office.
- d. The characteristic of this method is that the final compensation is fixed at an early stage, which can be an advantage, especially for the client.
- e. This method has no specific necessary preliminary expense for its development.
See 1.–4.
- f. The comparability between countries with the same pattern of the architects missions is reduced to “less or more” – without any deeper background.
- g. A completely and correctly described planning task leads to different compensations from market participants.
The method complies with competition law.
- h. The average client cannot judge, whether the lump sum is appropriate or not. Considering that the client knows at an early stage, what he will have to pay this method is sufficiently consumer friendly.

6. Commercial Compensation Negotiation

The standard criteria do not really fit this method, indeed it would even be unlawful or unprofessional in some legislations. However it has obvious commercial attractions to both parties since it shares benefits and risks.

Profit share of the value generated to the client (risky business).

Here the architect has to maximize the value generated to the client to get a maximum compensation. This can cause a conflict of interest between the public good and the interests of the client (especially in commercial developments) because the architect may have to concentrate on the quantity to generate profit instead of quality of the built environment.

On the other hand this method opens the chance for a distinctively over average increase in value through an outstanding architectural quality.