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Draft **04** for

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

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Draft **04**

Recommended Guideline for the Accord Policy on the Development of Architects Compensation[1]

Accord Policy

The architect's compensation must be calculated to recover all the architect's costs in connection with the fulfilment of the contract, with an allowance for risk and for building up an investment reserve and to allow for a fair profit. Appropriateness of the compensation is not only measured by the architect's obligations arising from the specific contract but also with regard to the architect's general obligations towards the client, the profession and to society as laid down in the UIA Accord on Recommended International Standards of Professionalism in Architectural Practice.
Professional organisations should – for the benefit of the members of the profession as well as of the consumers as the potential clients – actively involve themselves in setting up and maintaining information systems, based on historical data, about the appropriate range of compensation for the architectural services, differentiated by type, size, complexity and construction quality standard of projects.
~~*To willingly work for a compensation which does not at least cover the architects net expenses, shall be regarded as professionally unethical.*~~
Architects shall not propose a fixed compensation to undertake work where there is insufficient information on the nature and scope of the project. Deliberately undertaking work for a compensation insufficient to cover the architects net expenses for providing an appropriate level of professional service is unethical and considered unfair competition.

Introduction

Architects are the sole professionals who are qualified through education, training and continuous professional development to design and to provide advice, including technical **and aesthetic** judgement, on the built environment. Architects provide services and solutions with technical competence and aesthetic sensitivity suitable to the physical, social, cultural, and economic environment. In this architects not only have responsibilities to their clients but also to the community and its citizens as a whole. In matters of public health and safety, architects are legally obliged to serve the public interest and respond to the public need. These concepts of health and safety are continuously being expanded for example to encompass the sustainability of the global environment and accessibility for all persons.

Architects add value to building projects by creating a design and layout that combines functionality with aesthetic sensitivity. In addition, architects design for construction durability and energy-efficiency and with a look and visual impact that provides a positive experience which may also bring an increased market value to owners and users.

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[1] Languages usually have different expressions for the negotiable remuneration of e.g. the members of liberal professions on the one hand, such as
- honoraires, onorario, honorario, Honorar
and for the prefixed price for tickets for transportation, theatres, cinemas etc. or administration charges on the other hand, such as
- taxe / tarif, tassa, tasa, Gebuehr

For all these different meanings the English language uses the word 'fee'. The prevailing understanding in this is that it is a price fixed beforehand by one side of the involved parties and not formed by negotiation: Visitors cannot negotiate the entrance fees for theatres, museums etc., nor can the average citizen negotiate administrative fees set by authorities. It is not obvious for the average English speaker that there is a different situation regarding the remuneration of, for example, an architect.

Therefore the use of the expression 'fees' in connection with information systems on the calculation of architects' remuneration or with any other cost information system or regulation about 'fees' is bound to provoke resistance by competition authorities in the Anglophone parts of the world right from the mere headline already, even if non-mandatory.

As a result of these reflections it was decided to use the neutral term 'compensation'.

The work of the architect may be described as the creation of a prototype. Therefore the architect's compensation differs with every project. Product and price cannot be viewed in a catalogue beforehand. Nevertheless an information data base for the calculation of the architect's compensation is not only in the interest of the members of the profession but also in the interest of consumers as potential clients. It is a major instrument of consumer protection.

A generation ago expectations and roles within the planning and construction sector were generally consistent and clearly understood. An architect's services for a building project and the roles of the different participants in the planning and building process were clearly defined, based on a standard set of conventions and procedures. Therefore it was relatively easy to identify the typical compensation for the services of an Architect for a particular building type. Schedules of fees for architectural services based on a percentage of the construction cost were widely accepted and used in many regions of the world.
Therefore a system for the determination of the services and compensation for the architects – mandatory or on a recommended basis – exists in many states. In some states these systems are legislated, but more frequent such systems have been developed by the profession or private organisations.
The situation has changed and many existing systems for the determination of the services and compensation for architects do not meet the requirements of today. It has become necessary to examine every individual building project to determine the appropriate fee for the services the architect is to provide. The practice of architecture and the provision of architectural services has evolved considerably. Today the architect and client must agree upon a wide range of project requirements and negotiate an appropriate fee based on the unique aspects of the services to be provided for each project.

State legislated architect's fee scales originally had been part of a 'Contracte Social': Society generally acknowledged the outstanding importance of the results of an architect's services for the quality of the built up environment and therefore agreed to procure the services on the basis of quality alone and not of price. Competition among architects was about quality and not about price.

The consensus which had backed this Contracte Social has vanished. Unhindered economic competition is a major consideration of many national and supranational political organisations, for example the WTO or the Commission of the European Communities. There is no room for fee scales in their competition philosophy. Nevertheless there are several well founded arguments why some regulation of professional services may be necessary:

- A first argument is based on the concept of "asymmetry of information" between customers and service providers. A defining feature of professional services is that they require practitioners to develop and display a high level of technical knowledge. Consumers may not have this knowledge and therefore find it difficult to judge the quality of the services they purchase. Professional services are "credence goods" the quality of which cannot easily be judged either by prior observation or, in some markets, by consumption or use.
- A second argument is based on the concept of "externalities". In certain markets, the provision of a service may have an impact on third parties as well as the purchaser of the service. An inaccurate audit may mislead creditors and investors. A poorly constructed building may jeopardize public safety. There is a danger that the providers and purchasers of these services fail to take proper account of these external effects.
- A third argument is based on the concept of "public goods" Certain professional services are deemed to produce public goods that are of value for society in general. These might include the correct administration of justice or the development of high quality urban environments. There is a danger that without regulation some professional services markets might undersupply or inadequately supply public goods.[2]

[2] Report on Competition in Professional Services of 09.02.2004 of the Commission of the European Communities, chapter 4. Restrictive Regulation in the Liberal Professions (ciph. 24, 25, 26)

- In markets where search costs are high, it may indeed be advantageous for consumers to have access to accurate information about typical prices. However there are alternative methods of providing price information. For example the publication of historical or survey-based price information by independent parties (such as a consumer organisation) might provide a more trustworthy price guide for consumers, which distorts competition to a lesser extent.[3]

In view of the worldwide differences in cost levels and in the range of architects professional work patterns and responsibilities and considering the legal constraints, any attempt to develop something like a international cost information system for architects services would be a vain undertaking.
Therefore the UIA can only provide generally valid principles and methodologies for the development of architect's compensation systems under different economical, business-management and professional conditions. The understanding of methods to develop the appropriate compensation is vital for every architect in any part of the world. This knowledge, though decisive for professional survival, is generally not taught in architecture schools, and there are only few examples known, where this is part of the internship-curriculum between school-diploma and admission to the profession
At this point a special responsibility of professional organisations has to be highlighted. They should support their members in the effort of developing an appropriate cost information system by collecting historical data on office-costs and / or working time standards in relation to specific architectural services.

Recommended Guideline

The basic elements of any compensation calculation are

1. The Hourly Rate
for every member of the office

The hourly rate is composed of

- individual fee-earning working hours per year
  which after subtraction of
  - Saturdays / Sundays / legal holidays, contractual holidays, days of illness and other
  - general office administration tasks
  - CPD
  - acquisition / architectural competitions
  - other not fee-earning activities

  will finally amount to only 36% – 54% of the initial theoretical 2.920 working-hours of a year (365 days à 8 hours) in some regions of the world.

  The percentage of fee-earning working hours decreases with growing experience and responsibilities of an employee. It will be low for the office principals and high for technical drafting personnel.

  In other traditions the usual starting figure already neglects the non-working days Saturday and Sunday which normally leads to 261 days à 8 h = 2.088 h = 100%.
  The respective percentages for effective fee-earning working hours are: 50%-75%.

  These figures which resemble e.g. an European average will probably differ considerably in various regions around the world, due to different cultural, social and religious traditions and to different market conditions.

The individual share of any member of the office in the yearly total expense of the office (proportionate to her/his share in the total fee-earning working hours of the office) consists of

- the individual gross salary
- the individual social expense (legal + voluntary)
- a share in salaries and social expenses for non fee-earning office personnel
- a share in material expense for office space, information technology, general working material, insurance, fees to professional organisations etc. etc.
- a share in the calculatory principals salary

[3] Report on Competition in Professional Services of 09.02.2004 of the Commission of the European Communities, subchapter 4.2 Recommended Prices (ciph. 39)

these five expense items represent the **net expense**

On the net expense should be added:

- a surplus for building up an investment reserve
- a surplus for risk + profit

The resulting rate per hour will be 200% - >240% of the hourly rate of the gross salary alone.

Mastering this basic of office management and keeping the necessary time- and bookkeeping-records is an indispensable obligation for any architect who runs his own office.

Architects often have strong psychological reservations against „charging by the hour“, arguing that they perform an intellectual-creative service designated to add value not only to the investment of their clients but to the environment and to society as well and that architects are not day-laborers.

This guideline does not favor to compensate architects services by the hour as the standard method. However at the end of the day even architects are caught up by the basic management and economic needs of their offices. Therefore to always be up to date on the relation between revenues and expenditure of the office – and the working time of the staff members is the severest item of expenditure in architects offices – is an inevitable ability of any architect.

Architects must have the proficiency to master time-expenditure based controlling tools, to gain the necessary intellectual freedom. Otherwise they cannot perform the service-quality indispensable to meet the demands and responsibilities of clients and society.

Professional organisations should provide their members with appropriate IT based tools.

It has to be pointed out, that different traditions exist about handling these expenses. In some regions many of the above expenses items belong to the reimbursable expenses and are reimbursed directly or as a percentage of the agreed-on compensation.

Appendix III. to this guideline deals more extensively with the subject of the hourly rate and contains calculation sheets on MS Excel basis as well.

2. Pre Estimation of the Necessary Working Time for the Execution of a Commission

The complexity and difficulty of pre-estimation of the working time required for the execution of any architectural service has been and continues to be the major reason for the existence of fee scales and other types of cost information systems. The information about prices for architects services are indeed highly advantageous for consumers, who generally are not experienced in commissioning an architect. Building a house is quite different from buying goods for daily life in a supermarket and even very different from buying an automobile.

Existing cost information systems are generally based on the survey and evaluation of historical data from a multitude of architectural projects. Survey and evaluation has as a rule been executed by independent experts.

The common methods for defining the architects compensation and their characteristics are:

1. **Time Charge Compensation 1** (de facto working time, final statement retrospectively)
   The architect charges for his / her work on a hourly / daily / weekly rate. The compensation depends on the architect's actual working time. There remains a high degree of uncertainty about the final compensation.
2. **Time Charge Compensation 2, Project-Type + -Size related** (historical data)
   The architect charges for his / her work on a hourly rate. The charged working time is based on historical data for comparable projects collected and evaluated by independent sources or from the architects own records. The working time in relation to type, size and other specific characteristics of the project can be accurately assessed. The final compensation can be fixed in an early stage of the project – once the size in m² or m³ is known.
3. **Floor Area related Compensation**
   The architect charges a fixed compensation per m^2 gross floor area or useable floor area or per m^3 volume of the project. The compensation unit is usually related to a planning phase. The final compensation can be fixed in an early stage of the project – once the size in m^2 or m^3 is known.

4. **Percentage Compensation**
   The architect charges a percentage of the construction cost of the building. The percentage is based on historical data collected and evaluated by independent sources or from the architects own records. The percentage differs with type, size and other specific characteristics of the project and varies in relation to the construction cost (digressive scale) The exact final compensation develops with the construction cost of the project and is not fixed beforehand.

4a. **Fixed Percentage Compensation**
   This variation of the Percentage Compensation uses a fixed percentage of the construction cost, independent of the construction cost and sometimes even without any reference to size, type and other characteristics of the project.

5. **Lump Sum Compensation**
   The architect charges a fixed lump sum fee which is usually developed by one of the methods a. - e. in an early stage of the project.

6. **Commercial Compensation Negotiation**
   In some circumstances the profitability of a project or a particular phase of a project may be very high for the client, and this could be enhanced by the skill of the architect. Building projects frequently increase in value right after completion and a value of 110 – 120% of the invested sum is common. Therefore in some cases architect and client may be willing to negotiate a special compensation structure to reflect this. This could include an enhanced compensation for success and / or a reduced compensation (or nil compensation) in the case of failure.

In common to all these methods is that the development of compensations needs two appropriate tools: To calculate the hourly costs of the architect's office and to enable a pre-estimate of the working time and other expenses necessary to complete a specific service contract.

A comparison of the advantages or disadvantages of these methods 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
e. Preliminary expense for the development of the method
f. Comparability between countries
g. Compliance with competition law
h. Consumer friendliness

For a more thorough comparison of the above methods see **Appendix I.** to this guideline.

3. Other Variables Affecting the Architects Compensation

As indicated in the introduction the planning and construction sector has become increasingly complex and each project will be subject to certain unique factors which must be considered when determining appropriate compensation.

These factors are e.g.

- Scope of Services
  - Traditional Architectural Design Services or other
- Project Delivery Method and Construction Procurement
  - Sequential Tendering
  - Design-Bid-Build
  - Design-Build
  - Public Private Partnerships (PPP)
  - Other
- Schedule and Fast Track Projects
- Project Documentation and Computer Modelling
- Coordination of Specialist Consultants
- Complexity of Building Permit Process (authorities having jurisdiction)
- Submittals
- New Technologies
- Construction Administration

- Project Location and Site Conditions
- Renovation / Alteration to existing Buildings
  often to be executed while occupied
- Intervention in Listed Buildings
- Repeat Work or Repetitive Designs
- Demobilization and remobilization (Stop and Start-up of Workforce)
- Phased Building Occupancies

To take regard of all these factors in the basic information system (e.g. fee scale or scale of working time) would make the scales endless and very complicated. It is therefore recommended to introduce multiplying factors to adjust the basic compensation. Sometimes the variable may result in a reduced compensation such as for repetitive design work, limited project documentation, or the elimination of entire phases.

4. Creation of Information Systems for the Compensation of Architects Services

The survey, collection and evaluation of historical data on completed architectural services should be commissioned to independent experts in the field of statistics with special experience in the planning sector.

Competition authorities would prefer such tasks be undertaken by “independent“ organisations and not by professional associations. The Commission of the European Communities, for example. suggests, that such information should be published by consumer organisations. Architectural services generally do not rank high enough in the daily activity and interest of consumer organisations to justify the high investment necessary to execute a complex survey of this kind. Furthermore the logic of, why a consumer organisation would be more independent than a professional organisation in conducting such a survey remains to be explained. As long as such a survey is not commissioned and published by relevant state authorities it would be in the justified interest of both professional organisations and customer organisations to do so, provided the necessary due diligence towards competition rules is observed.

To enable such surveys, professional organisations should oblige their members to place the relevant historical data on completed projects at the disposal of the organisation for an independent survey. Data safety measures, anonymity and stringent precautions against the leaking of confidential information must be observed and guaranteed.

Survey and evaluation should differentiate by

5 - 7 categories of planning and execution tasks of different complexity
a thorough and comprehensive catalogue of building and project types, allocated to these categories will help to avoid lengthy discussions in contract negotiations
3 subcategories of execution standard (simple, average, complex) in each main category

A complete catalogue of the architects responsibilities and scope of service within the main characteristic project phases

- Pre Design Services *)
- Preliminary Design
- Final Design / Building Permit Application
- Construction Documents (Drawings / Tender Documents)
- Bidding / Negotiating / Contract Awarding
- Construction (Supervision / Contract administration)
- Post Completion Services *)

*) these services are usually **not** part of the traditional scope of services and therefore not included in the basic compensation listed in cost information systems

should be included.

5. Final Reflection

Most existing cost information systems belong to method **4. Percentage Compensation**. Nevertheless due to the wide range of project requirements in many building projects this method often cannot satisfy the specific needs of the increased complexity any more.
Very often the project and the client are best served by a combination of different methods of compensation rather than one single fee. Frequently it is more appropriate to use one method

of compensation for one phase of the project and a different method of compensation for another phase.
For example, in the dealing with authorities to obtain approvals for a project, which can be indeterminate in complexity and time, it may be fair to compensate the architect on an agreed-to hourly rate by method **1. Time Charged Compensation 1**. However the project documentation could then be compensated on a percentage fee based on the construction cost for the project by method **4. Percentage Compensation**.
In another instance, specific additional services, such as the preparation of an architectural rendering or marketing materials, could be provided at a fixed price or lump sum. Other services for the same project could, in turn, be remunerated on the Percentage Compensation method or the Time Charged Compensation method.

The direct interdependence between construction cost and compensation has turned out to be a major weakness of the method under two aspects especially:

- Times of crisis in the construction sector often involve a major decline in prices/ construction cost. The architect's compensation may decrease by 10% and more while work-load for the project and office cost level remain unchanged. And even worse, the decline in prices tends to bring about a decrease in construction quality standard which leads to an increase on the demands on the architect in the phase site supervision / contract administration and on his liability risks.
- An architect's 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 serious psychological handicap of this method in the relation between architects and clients.

Besides the deficits of the Percentage Compensation method mentioned before the comparison of advantages and disadvantages of the different methods shows, that method **2. the Time Charged Compensation 2**, **Project-Type + -Size related** based on historical data, has a very good potential to become the method of the future because of the following criteria:

- The method enables the best comparability between countries, because differences between countries in the relation between construction cost-level and cost-level in the architect's office (which can distort comparability in the Percentage Compensation method) have no effect on the comparability, an important aspect in a globalized market.
- The method has the best chance to satisfy restrictive requirements set out by competition legislation because it will not result in a fee scale but in an information system on the average appropriate working hours for a specific architect's service. The hourly rate charged will be a matter of the individual architect's office.
  Therefore a completely and correctly described planning task leads to different compensations among market participants, due to their different hourly rates.
  However it cannot be neglected, that in some jurisdictions the publication of even the most carefully assembled cost information system of any kind will fail to satisfy the relevant authorities and may result in a fine or other punishment for the publisher.
- A positive side effect is that, to use this method architects are forced to observe economic management principles in their offices, more than under a fee scale with a fixed range of fees.
  In professional environments, where architects often tend to consider business issues as below their dignity – and these environments still do exist - this will have a positive educational value.
- The disadvantageous automatic effects of the Percentage Compensation method mentioned above do not occur.
- A major negative aspect of the **Time Charged Compensation 2, Project-Type + -Size related** method, based on historical data, is the high initial expense for the development of the method. Data collection and evaluation are time consuming. Data bases should be permanently expanded and updated to remain relevant. However this is true for the Compensation method as well and there especially the updating is even more complex and challenging.

See also **appendices**:

I. **Comparative advantages and disadvantages of the methods for defining the architects compensation**

II. **Overview on existing Cost Information Systems / Fee Scales / Methods for Calculation of the Architects Compensation**

III. **Calculation of Hourly Rates in Architects Offices**