



## AIA Best Practices: Charging for services

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Contributed by David B. Richards, FAIA, LEED AP, PMP. Excerpted and adapted from *The Architect's Handbook of Professional Practice*, 15th edition

### Summary

Architects have several options for charging for their services, including retainers, percentage of completion, hours worked, payment per fee schedule, payment at project milestones, and working when paid. Let's take a look at each of these options; not all are appropriate for every project, client, or practice, but you will likely come across one, if not a few, in your work.

### Retainers

It is good practice to receive a portion of the overall fee at the initiation of the project as a "retainer," or advance payment, especially when working with a new client.

A retainer fee indicates a client's willingness and ability to pay for services. Consider setting the retainer amount based on the cost of services provided from the onset of the project until the payment of the first invoice so that the architect's efforts are compensated until an invoice is paid. The retainer continues to cover the cost of services being provided throughout the project and the amount is credited to the final payment for the project. A retainer may be used with any of the approaches below.

Most architects are reluctant to ask for retainers, to be paid, in other words, for work not yet performed. But other professionals, such as lawyers, routinely ask for and receive retainers from their clients.

### Based on the percentage of completion

Invoicing can be based on the percentage of completion of active phases. This method of charging for services can be used for stipulated sum fees, fees based on a percentage of construction cost (based on an estimate of the final fee per phase) and fees based on unit costs. These services are often invoiced monthly, or every four weeks per accounting periods, or some other regular basis.

One approach to determining the percentage of completion is to use the Work Breakdown Structure that was developed when the fee was established to monitor the percentage of completion for each task. Those percentages are tabulated based on their value to determine the percentage of completion of each phase. Each phase is then invoiced based on this percentage of completion.

## Monthly based on hours worked

Hourly projects are invoiced based on the number of hours worked in a period within any not-to-exceed limits on the effort. It is a good idea to explicitly define the not-to-exceed limit as an amount that the architect will not exceed without prior approval, rather than as the maximum amount required to complete the services.

## Monthly per fee schedule

Some clients like to know in advance how much they will be expected to pay each month. For such clients, consider providing a payment schedule. The fee to be invoiced each month is set by determining the percentage (and therefore the amount) of fee for each phase, and dividing each phase's fee by the number of months for the phase. Then, assuming that the project is progressing per the schedule, the fee is invoiced at the predetermined rate. This approach can help the client anticipate the fees that will be invoiced each month and have those funds available.

## Project milestones

Milestones in the project's design and construction schedule may determine the timing of compensation. This type of payment is related to the completion of specified portions of the project or the phases of the project.

Milestone fees can be set up as 100% payment for a phase when the phase is complete and accepted by the client, or it may be arranged for payment of 80% of the amount due for the phase when the work is completed by the architect, and the remainder when the phase is accepted by the client.

Other project milestones may be the acceptance of the design, reconciliation of the budget at various stages of the project, the acceptance of a Guaranteed Maximum Price (for construction) or the cost of the construction determined in bidding. Milestone fees are often required in government funded projects. Whenever possible, architects should work to keep the nature of the milestones within their control.

## Work when paid

This approach limits an architect's exposure for nonpayment. It means getting paid before providing services. At the initiation of the project the client pays an amount that covers the architect's services until the next milestone in the project's development. Throughout the project the client pays for the next steps of the effort before those services are provided. This approach is reviewed with the client at the onset of the project so there is a clear agreement of terms with the architect.

This approach to getting paid in advance can simplify practice. If the architect establishes "work when paid" as the standard way of doing business and is successful in applying the practice to all projects, the architect can eliminate the effort of chasing payments, potentially alleviating considerable headache and disappointment.

## For more information

- A Guide to the Project Management Body of Knowledge (PMBOK® Guide) – Fourth Edition , 2008
- The Architect's Guide to Small Firm Management: Making Chaos Work for Your Small Firm, Rena M. Klein, FAIA, John F. Wiley & Sons, Inc., 2010
- How Firms Succeed: A Field Guide to Design Management, James P. Cramer and Scott Simpon, 2004
- Impact 2020 Ten Giant Forces Now Colliding to Shake How We Practice Design in the Future, Frank A. Stasiowski, FAIA, PSMJ Resources, Inc., 2010
- Monitoring Earned Value, David B Richards, AIA, AIA.org Best Practices, 2012
- The Ultimate Project Management Manual, PSMJ Resources, Inc., 2012 edition

## About the contributor

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This article corresponds to:

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Section 02 – Services and Compensation