



WHAT ARE SOFT COSTS IN CONSTRUCTION





UNDERSTANDING HARD AND SOFT COSTS IN CONSTRUCTION BUDGETING

When planning to build a custom home, a spec home or a commercial project one must take into account all the costs associated with the project when estimating the total expenses.

These costs can be broadly divided into two categories: hard costs and soft costs. In this guide, we will delve into the distinction between these two types of costs, provide examples of soft costs, and highlight why it's crucial to include soft costs in project budgets.

Construction Direct Costs

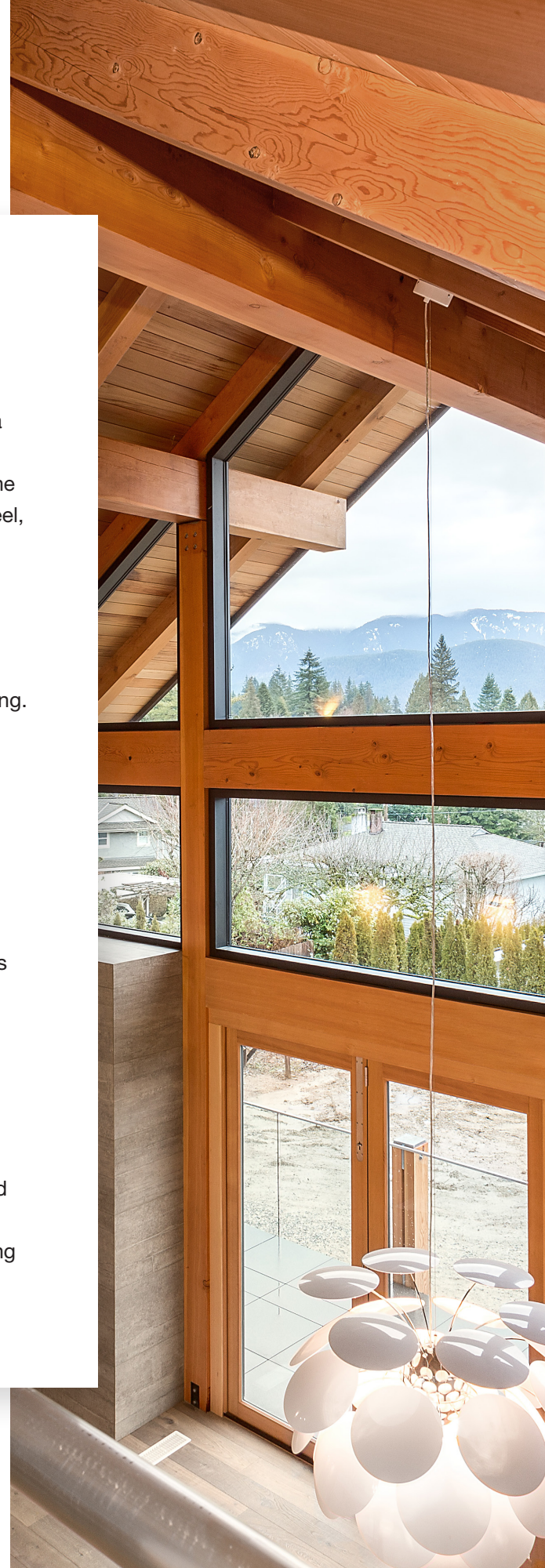
Construction direct costs, also known as hard costs, refer to the actual expenses incurred in the physical construction of a building or project. These costs include the materials, labor, equipment, and other expenses necessary for constructing the project. Examples of construction direct costs are lumber, steel, plumbing, electrical, and masonry costs.

These expenses are typically incurred only during the construction phase, with some early expenses for material purchase or contractor mobilization. The majority of construction direct costs are incurred while the work is ongoing.

Understanding Construction Soft Costs

While hard costs refer to the expenses related to the physical construction of a project, soft costs are all the other expenses that don't involve the actual building process. Soft costs are typically non-tangible expenses for services, fees, and insurance. These expenses occur from the early stages of planning to post-occupancy and beyond.

Examples of soft costs include fees for engineering, permits, legal and accounting services, marketing and advertising, and project management expenses. Unlike hard costs, which are mostly incurred during construction, soft costs can be ongoing and may continue even after the project is completed.



Soft costs typically found on construction projects



Design

Soft costs related to design typically include architecture, design fees, and engineering costs. These fees pay for design services and may include designers, engineers, interior decorators, and other design consultants.



Project Management

Overall project management costs, such as expenses for a project manager or an independent owner representative, are considered soft costs. Project management services provided by the general contractor may also be included in this category.



Permits and surveys

For more extensive remodels and renovations, building permits and plan reviews by the local jurisdiction are required. The project may also require a survey of the property to determine elevations and property lines.



Marketing

Any expenses related to advertising the new building or recruiting employees or tenants are considered soft costs in the project budget. This includes advertising, signage, flyers, banners, and other promotional materials.



Rentals

Rentals on a job site can include both equipment and office space. Mobile trailers or container boxes can be used for material storage and workspace. Equipment rentals may include forklifts, man lifts, scissor lifts, and other equipment.



Post-Construction

Post-construction expenses, such as moving in, building lifecycle maintenance, change of tenants, and other post-occupancy expenses, may be included in the project budget. Some budgets may project these expenses over time to determine the return on investment.



Financial and Insurance

All construction projects require insurance to protect the builders, contractors, and workers. Other financial-related expenses, such as bonds and accounting services, may also be included as soft costs in the project budget.



How to Include Soft Costs in Your Project Budget

When creating an estimate for a construction project, it's essential to consider both hard and soft costs. By doing so, you can accurately predict the overall cost of the project, which will affect your profit in the future.

It's crucial to include soft costs in project budgets since they can represent a significant portion of the total budget, ranging from 25% to 50%. Early quantification of these costs is also necessary to determine your return on investment.



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