

Analyzing a Conceptual Budget /What Am I Looking For?

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If I walked into a car dealership today and asked a salesman, “How much does a car cost?” he would have a lot of follow up questions for me. Am I looking to buy a Mercedes or a Kia? Do I want it fully loaded with all of the amenities? Would I prefer an energy efficient model or a large SUV? So many different factors determine cost. Without that information, how could I expect anyone give me an accurate estimate on what a car will cost? The same is true when requesting a conceptual estimate for a construction project. Yet, construction managers are often asked to provide early conceptual numbers based on very little project information.

Undertaking a construction project is a costly endeavor, so you want to be sure you’re fully informed and aware of your options. Early in the process, it’s a good idea to solicit conceptual estimates to get an initial check on what your budget might be. Because you may not be able to provide more than preliminary information to the CMs, analyzing the budgets you receive can be deceiving because you’re really not comparing apples to apples. One CM may have priced out the project with high-end materials and another may have used less expensive options; one CM could have guessed at some of the gaps and given a much more comprehensive number while the other priced just the basics. Assuming that the initial number covers everything you need is shortsighted and could very well create issues for your budget later.

With so much room for interpretation at this early stage, you should really delve deep into any conceptual estimates you receive to ensure they are comparable to each other and include the same amount of detail.

Three Questions to Answer When Interpreting Early Budget Numbers

1. *What level of detail was provided in the drawings?*

Are you asking the construction managers to make a lot of assumptions about your project? If the drawings are still in a very preliminary stage, the contractors will have to fill in a lot of blanks to provide you a number that will hold up as your design evolves. If this is the case, it’s important to know if each construction manager is making the same assumptions – especially if there is a large discrepancy in their final numbers.

2. *How knowledgeable was the Estimator?*

An experienced CM – one who has done this many times before and has experience in the field – will oftentimes identify gaps within the drawings and fill them in, giving you a more accurate and complete number. He will use historical cost data, subcontractor input, and past experience to prepare an estimate. A less experienced CM, on the other hand, may just be plugging numbers into a computer program without analyzing the drawings at all. Comparing these two numbers as equals would be a mistake because the discrepancy will eventually catch up with you – do you want to know the costs now or be surprised by them later?

3. *What accounts for the differences in prices?*

The only way to understand why two bottom-line numbers differ is to do a line-

by-line analysis of the completed estimate to find where and how the numbers diverge.

After reviewing the numbers yourself, ask each of the CMs for a face-to-face meeting to discuss their numbers. Their explanations will give you a better understanding of the process they used to develop the estimate and their assumptions and understanding of your project. This is an opportunity to have any questions answered or to clarify any misconceptions about the project. The CM should also be able to provide approximate pricing for alternative items upon request – for example, if he priced the job using expensive materials or systems like a four-pipe HVAC system, you can analyze your options and the life cycle costs to determine which option best fits your program needs.

Finally, ask your CMs for a list of three or four references that can speak to their estimating capabilities. You will want to know about their track record for completing projects within the original estimate given. Do their numbers typically fall within a small percentage of the final cost or do their projects often come in quite a bit higher than the initial number? If the numbers are consistently off base, you can safely assume that the early estimates cannot be trusted. It may be difficult to forego a lower number at this early stage, but if that number cannot be realized later on, you’re only buying into a pipe dream that will inevitably end in disappointment and an exceeded budget.

Knowing what you’re going to get ahead of time and analyzing early budget numbers thoroughly will help ensure your project has fewer surprises, resulting in a smoother, more enjoyable project experience.