THE HIDDEN COSTS OF RESIDENTIAL BUILDING

OWNERDEVELOPER®

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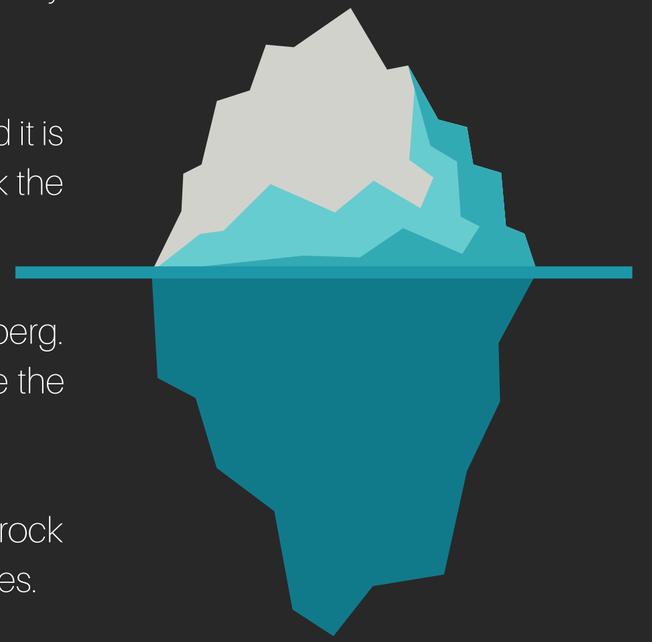
FORESEEABLE AND UNFORESEEABLE COSTS

Some costs can be accurately estimated and others are unforeseen; otherwise referred to as ‘Hidden Costs’, but don't be fooled by the name.



Builder’s aren’t 'hiding' anything from you, but put simply their quote involves all the foreseeable costs included in the project, and it is up to you as the Developer to do the proper due diligence and find out what costs you need to be aware of so that you can ask the right questions and ensure your budgets don’t blow out.

Think about it this way: your foreseeable costs are the items that can accurately be costed, consider it just the tip of the iceberg. They can include trades, materials, inclusions, and finishes. You and the builder can identify this at the start of a project, just like the tip of the iceberg being seen kilometers ahead.

But then there are your unforeseen costs. These are the items that cannot be accurately costed, such as underground rock excavations, underground or under cavity work, site time-off due to wet weather condition, site time-off due to accidents or injuries.

This is the underwater portion of the iceberg that if you don't see coming can sink you.

So how do you stay afloat and speed past this iceberg with success? contingencies! A contingency sum is intended to cover the cost of unforeseen or unforeseeable work and it should not be used for variations or extra work and they can be broken up into two parts.

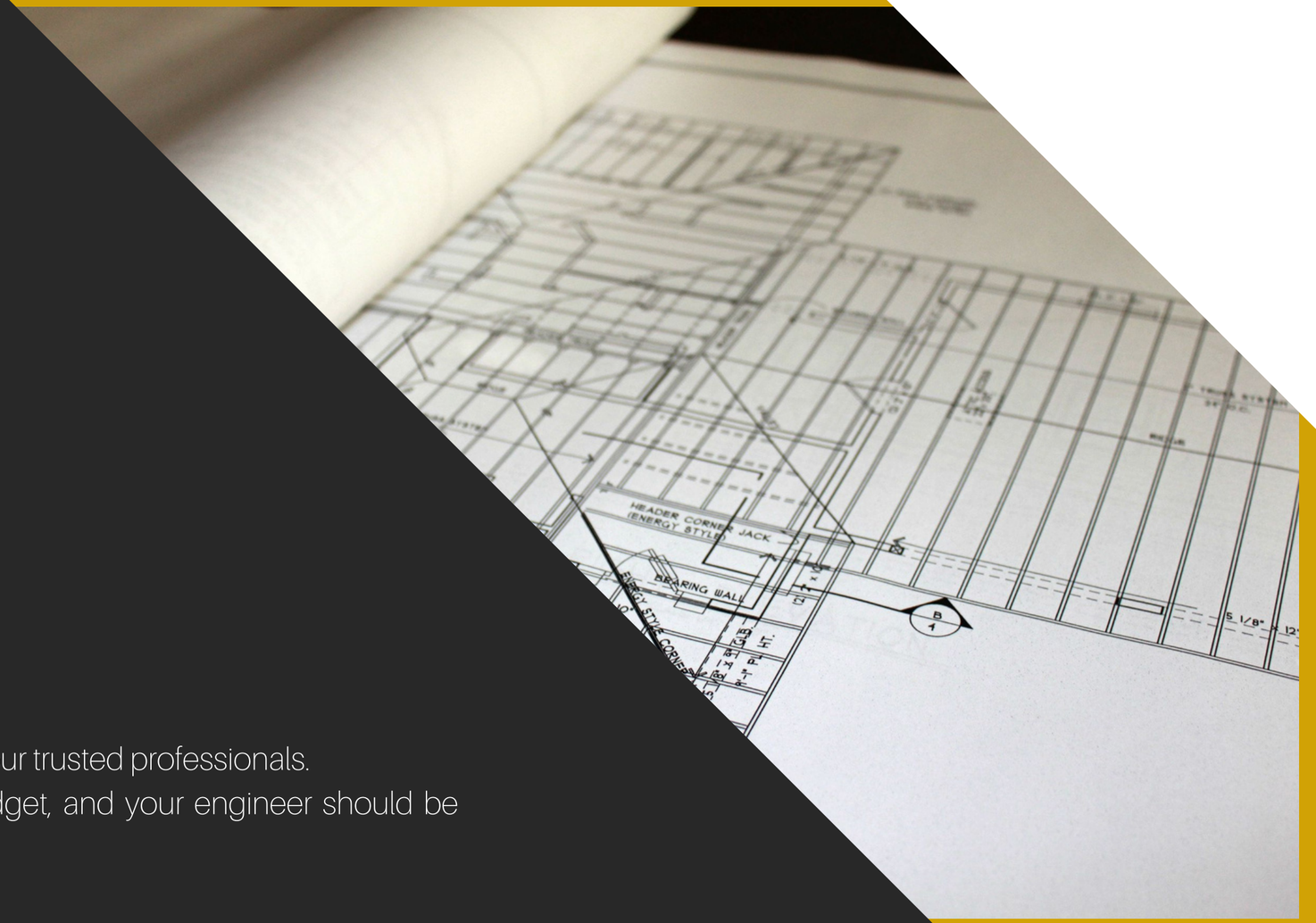
1. *The design contingency:* During the design stage when many aspects of the project are unresolved or perhaps not yet fully understood the contingency sum will be higher as a proportion of the total budget.
2. The construction contingency Unlike the design contingency, which is provided to enable you and the design team to develop the design in the most appropriate way, the construction contingency should be reserved for expenditure on unforeseen items that arise during the construction stage. It may either be included in the construction contract as a provisional sum or be held by you outside of the construction contract. It is designed to cover costs that are incurred when the project is in construction which may include latent conditions, belated authority requirements or minor costs flowing

ARCHITECTURAL AND ENGINEERING DESIGN

In the traditional method in a property development progression, you generally start with getting an architect to design your project, and then a planer to submit it to the council and obtain Development Approval then you get your engineering done for Construction Certificate (CC) or Building Approvals (BA).

By the time you have your hands on that golden ticket, you have paid up and above $10,000 on professional fees. Not to mention the fact that this design could be over-design and over-engineered, resulting in ridiculously high building costs.

Try adopting a different approach and start by establishing a budget at the feasibility stage by reverse-engineering the value of the end product. Is it affordable housing? Is it an occupier or investor market? Is the best use a mid-spec or high-end finish?



Communicate your feasibility and budget with your trusted professionals.
Your architectural brief should consider the budget, and your engineer should be involved at the budgeting stage.

SITE & CIVIL COSTS

Your site and civil costs are subject to the followings:

- Soil classifications (refer to next page)
- Disturbed, unstable or contaminated soil
- Building over a sewer or storm water pipes
- Retaining walls
- Removal of trees
- Site access
- Density

Site works are one of the largest hidden costs most overlooked in residential buildings and in some cases can amount to over $100,000. In particular, common items that may surprise incurring additional costs include;

Retaining walls: the amount and type of retaining required:

- Work out linear meters of retaining needed and how high along boundaries
  - If over 1m in height then retaining will need to be stepped in from boundary by 1m
  - Approx. $250 per linear meter for retaining under 1m
  - Approx. $500 per linear meter for retaining 1m high.
  - Add $100 per linear meter for every 100mm above 1m (plus engineering cost)
- If over 1m then engineering is needed. Budget $2000 for this service
- Blockwork costs more than timber and may be required when over 1m or forming part of the house structure
- Example: 10m wide 405m2 block with 5degree fall across will have even cut/fill so no export/import costs and 500mm retaining on each side, battered at the rear. 80 linear meters of retaining @ $250 = $20,000 of retaining

Site access: narrow lots with access issues and no storage will require cranes and more labor-intensive.

Density: Higher density may require downstream connection and pump or upstream connection and access easement. The civil engineer will have to design and confirm.

SOIL CLASSIFICATION

SITE CLASS	FOUNDATION	CHARACTERISTIC SURFACE MOVEMENT
A	Most sand and rock sites with little or no ground movement from moisture changes.	
S	Slightly reactive clay sites, which may experience only slight ground movement from moisture changes.	0 – 20mm
M	Moderately reactive clay or silt sites, which may experience moderate ground movement from moisture changes	20 – 40mm
H1	Highly reactive clay sites, which may experience high ground movement from moisture change.	40 – 60mm
H2	High reactive clay sites, which may experience very high ground movement from moisture changes.	60 – 75mm
E	Extremely reactive sites which may experience very high ground movement from moisture changes.	> 75mm
P	Sites which include filled sites (refer to AS 2870 2.4.6), soft soils, such as soft clay or silt or looses sands; landslip; mine subsidence; collapsing soils; soils subject to erosion; reactive site subject to abnormal moisture conditions or sites which cannot be classified otherwise.	

INCLUSIONS

When signing the building contract, knowing your inclusions and exclusions is essential. Often the most simple things are assumed to be in a contract, but are actually excluded.

	LOW SPEC	MEDIUM SPEC	HIGH SPEC
CEILING HIEGHTS	2400H	2700H	Above 2700H
KITCHEN	Laminate	Poly + Engineered Stone	Real Stone
FLOORS	Carpet/Vinyl	Engineer Timber	Herringbone Timber
APPLIANCES	LG	Meile	Gaggenau

- Does your inclusions list cover the floor coverings, light fittings, fly screens, overhead cupboards in the kitchen, mirrors, driveways, landscaping?
- Turn-key: your inclusions should be completely turn-key such that everything you need to move in is incorporated in the cost.

PRIME COST AND PROVISIONAL SUM ITEMS

Prime Cost (PC) is allocations in your building contract for a particular item:

- Tap fittings
- appliances, etc

Provisional Sum (PS) is allocations in your building contract for service that cannot be accurately costed

- Underground rock excavation
- Substrate works, etc

These allocations are estimates only and the real cost can vary significantly. The best thing you can do is try and minimise this allocation where possible.

OVERLAYS AND COVENANTS

Council overlays and estate covenants are particularly important to keep in mind as they will affect the requirements for building certification which ultimately affects building costs. Some overlays that are common for adding extra costs include:

1 **BUSHFIRE**

The Bushfire Attack Level (BAL) affects the permissible designs and materials.

2 **FLOODING**

Blocks in flood prone areas may require raising of the home or additional site fill depending on the type of flooding.

3 **ACOUSTIC**

This is a very common requirement with busy roads and properties near the railway.

NOISE INSULATION

Building in proximity to a train line, major arterial route or busy road will almost certainly require additional noise insulation upgrades, such as double glazing and insulated walls. These upgrades often quickly amount to well over $5,000

4 **COVENANT**

New housing estates will often have building covenants that must be adhered to, such as the type of facade, or front fencing materials.

5 **CHARACTER**

Some councils have character overlays, which outline the acceptable facade (street-facing side) options on a home you choose to build. For example, Prewar (pre1946) houses will need DA, town planning, and the DA costs and requirements are significantly more than a lot without this overlay.

BUILDING ON A SLOPE

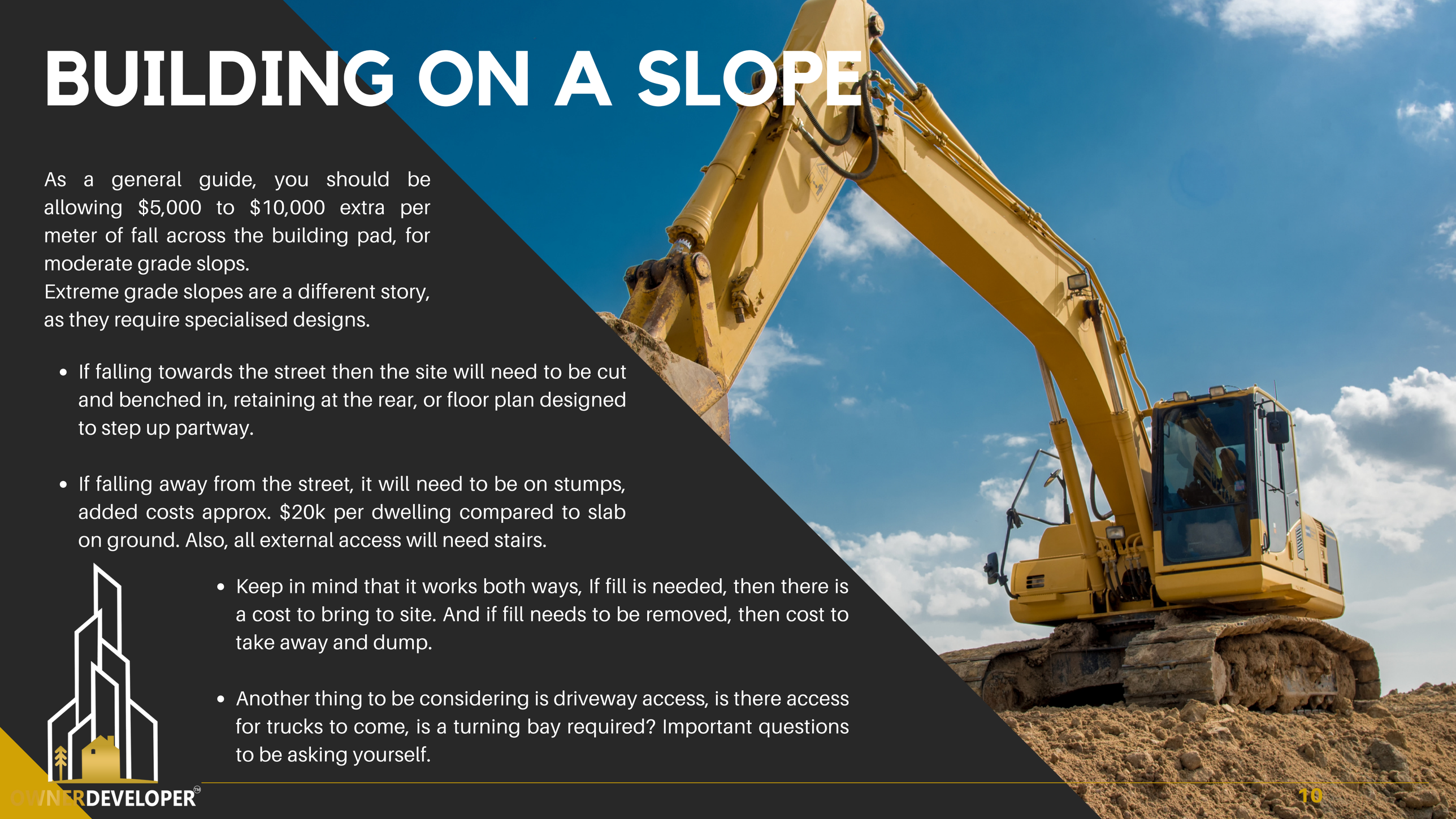
As a general guide, you should be allowing $5,000 to $10,000 extra per meter of fall across the building pad, for moderate grade slops.
Extreme grade slopes are a different story, as they require specialised designs.

- If falling towards the street then the site will need to be cut and benched in, retaining at the rear, or floor plan designed to step up partway.

- If falling away from the street, it will need to be on stumps, added costs approx. $20k per dwelling compared to slab on ground. Also, all external access will need stairs.

- Keep in mind that it works both ways, If fill is needed, then there is a cost to bring to site. And if fill needs to be removed, then cost to take away and dump.

- Another thing to be considering is driveway access, is there access for trucks to come, is a turning bay required? Important questions to be asking yourself.



TRAFFIC MANAGEMENT

Some sites will require traffic management during construction, particularly if located on a busy road.

If the site is located on a busy road and the builders are required to close the road or interrupt traffic then this may incur a fee from your local council or state government + Traffic control costs

CONNECTING UTILITIES

When the site being subdivided or purchased without utilities connected, additional connection fees will be incurred. Depending on the location of the main sewer and stormwater lines, this can cost several thousand.

INTEREST & HOLDING COSTS

One of the major challenges faced by the construction industry is projects that stretch timelines and budgets.

Delayed schedules are so common; they can be seen to be the norm, not the exception. When budgeting for your building project, do not overlook the interest and holding costs (rates, insurance, etc.).

Plan for timeline blowouts as delays may be caused by pending council approvals, weather, and the holiday period.

Depending on the structure of your loan, have your construction financier forecast a schedule of repayments. Ask about interest capitalisation so you are not out-of-pocket for repayments during construction.

ESTIMATING METHODS & SQUARE METER RATES

Cost estimation is both an art and a science, requiring a seasoned estimator who knows the ins and outs of the construction process, as well as, the intricate costs of unforeseen items.

Of course, the key to delivering projects on time and within budget is to ensure the timelines and budget are correct in the first place. With so many factors at play, some immature developers can be at risk of inaccurate budgeting. While expert and experienced team members can help guide this process, nothing can replace real data such as Rawlinsons or Cordell etc.

Here are the two most common estimating method in the residential building:

- Labor cost + Material cost + Margin + Tax
- Take-offs/ BOQ X Rate data + Margin + Tax

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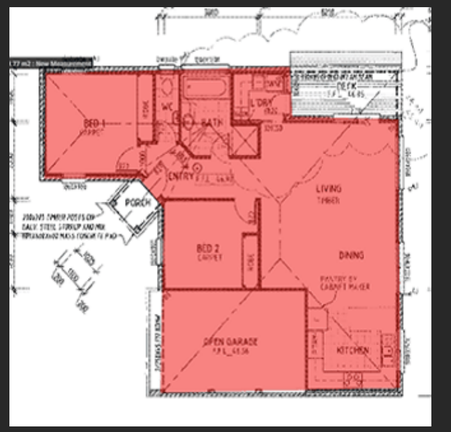
Rawlinsons PUBLISHING QUANTITY SURVEYORS & CONSTRUCTION COST CONSULTANTS



SQUARE METER RATES	
NEW BUILD	**RENOVATIONS**
SLow spec $1600-1900/m2 Med spec $1900-2500/m2 High spec $2500-3500/m2	Low spec $1800-2200/m2 Med spec $2200-3000/m2 High spec $3000-4000/m2

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THE IMPORTANCE OF A DETAILED SCOPE

At the design stage, you should be provided with a brief, including the number of living rooms, bedrooms, bathrooms, car parking, and outdoor areas. Beyond this, you need to be considering extra items like kitchen with island bench, butlers pantry, workshops, and storage, pools, fireplace, fences, gate, landscaping.

The design brief should give a good idea of the size required to fit based on relevant standards, previous designs, and also using the previous experience we can work out a base rate and rough square meter rate during sketch design.

Standard room sizes:

- Garage – 36m2
- Master Bedroom with WIR – 20-25m2
- Bedroom with robe – 11-15m2
- Living room – 20-25m2
- Kitchen – 15m2 (30m2 including WIP)
- Laundry – 7m2
- Bathroom/Ensuite – 5-7m2
- Alfresco – 16-25m2
- Circulation – 3m2 per room
- Stairs - 6m2

At the construction stage, make sure you are provided with

- Detailed scope
- Schedule of finishes,
- And inclusions schedule etc

Vanity (Size that fits in this finish)	Vanity Supply	$450.00		http://www.ostar.com.au/index.php?route=product/product&path=129_139_79&product_id=669
Shower screen	PC /Sqm Supply	$470.00		https://www.bunnings.com.au/d-lucci-10-x-2000-x-865mm-frameless-glass-shower-panel-door-kit_p4890736
Toilets	PC	$350.00		https://www.harveynormancommercial.com.au/media/catalog/product/t/t/ttsoulbtw_forme_web2.jpg
Sink Mixer	PC	$150.00		https://www.harveynormancommercial.com.au/media/catalog/product/1/5/152790000_phoenix_web.jpg
Shower Mixer	PC	$150.00		https://www.harveynormancommercial.com.au/media/catalog/product/1/5/152780500_phoenix_web.jpg
Showerhead	PC	$150.00		https://www.harveynormancommercial.com.au/media/catalog/product/1/5/152650000_phoenix_web.jpg
Toilet Rolls/ One per bathroom	PC	$25.00		
Towel rails/ One per bathroom	PC	$25.00		
Towel Hook/ One per bathroom	PC	$35.00		
Mirror/ One per bathroom	PC	$60.00		
Laundry				
45 Lit Tub	PC	$200.00		https://www.bunnings.com.au/everhard-45l-laundry-unit_p5140042
General				
Ducted AC	PC	$6,500.00		https://www.rinnai.com.au/

ASK YOUR BUILDER THE RIGHT QUESTIONS

- Does my contract have a site cost allowance? What is covered by this?
- Will extra noise insulation or traffic management be required? Is this cost included in my contract?
- Is the utility connection cost included in my contract?
- What is the expected completion (handover) date? What happens if this is not met?
- If you are a beginner developer, ensure your building contract is a fixed price and inspect carefully before signing.
- Know exactly what is included and excluded in your contract. Be very specific and ensure that all items which you require are included.
- Research and ensure the prime cost and provisional sum estimates are reasonable.
- Is there any overlays or covenants on my block? What cost will this add to my contract?
- Council websites can also provide handy information on flooding and other overlays.

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