ARCHITECTURAL INSTITUTE OF BRITISH COLUMBIA

Practice Guideline: Percentage Fees: Phased Earnings

December 2017

IMPORTANT:

The AIBC transitioned to the Professional Governance Act effective February 10, 2023. **This document has not yet been updated to reflect the new legislation and updated Bylaws**. Although there may be outdated terms and references in this document, note that the **general concepts and requirements remain the same**. If you have any concerns or questions, please contact practiceadvice@aibc.ca. For more information about the transition, go to aibc.ca/PGA.

1.0 Introduction

1.1 Traditional methods for apportioning and reconciling percentage fees are well engrained, especially when both parties to an agreement are used to doing business with each other in a particular way over a long period of time. Some architectural firms, clients and consultants wisely articulate their business methods as matters of published policy.

1.2 Some traditional methods (e.g. retroactive reconciliation of all fees according to final Contract Price) have proven themselves on balance to be inequitable and counterproductive. As a result, better methods have been developed and adopted as standards of practice. It is important for architect, client and consultant alike to monitor such progress, especially when industry-wide contracts are changed and are in effect on projects.

2.0 Percentage Fee Calculation

2.1 People working on any given project need to be aware of its specific, contractual terms of reference. Architectural firms, clients and consultants need to be aware of the following recommendation:

When the fee for the architect's services is based on a percentage of the Construction Cost (as defined in the *AIBC Tariff of Fees for Architectural Services* and standard client/architect contracts), the basis for apportioning the applicable parts of the total fee to the phases of services shall be calculated against the following:

- Schematic Design Phase: the mutually agreed Client's Construction Budget at its **commencement**.
- Design Development Phase: the approved estimate of Construction Cost at its **commencement**.

- Construction Documents Phase: the approved estimate of Construction Cost at its **commencement**.
- Construction Procurement Phase: the approved estimate of Construction Cost at its **commencement**.
- Construction - Contract Administration Phase: the **actual** Construction Cost.

2.2 When revisions or additions are made to the client's program of requirements or previously approved designs or documents prepared by the architect during any of the phases of services stated above, and such revisions or additions require services beyond those already provided in that phase or any previous phase, the fee for such services shall be increased based on hourly or per diem rates or other mutually agreed method for any of the applicable phases.

2.3 The foregoing is reflected in AIBC Client/Consultant Contract 6C; the current guide to RAIC-6, the national standard client / architect form of contract; and all its predecessor editions since 1987. Simply put:

> **Percentage fees are not to be reconciled during or at the end of a project, retroactively through all phases of service to the project's inception.**

2.4 That mechanism has been an actively discouraged, obsolete practice relative to the architectural profession's published standards since 1987. Section 3.5.4 of the *AIBC Tariff of Fees for Architectural Services* explains as follows:

> "In relatively calm market conditions, an architect's costs (especially for staff) will naturally move consistently with the parent (construction industry) market sector's costs. A percentage fee, therefore, is a reasonable mechanism for an architect's revenue to stay abreast of relevant modulating costs.
>
> There are, however, some real or perceived inequities in how percentage fees might be used. In rapidly changing or inflationary markets, or when builders or suppliers are not competitive, resulting in actual construction costs higher than those budgeted or estimated, clients sometimes perceive retroactively adjusted percentage fees as generating "windfall" profits. An architect, however, as a responsible professional does not provide services with any vested financial interest. In fact, projects with unduly high costs rarely proceed at those levels. Also an architect may be obliged to provide some services, in cooperation with the client and the builder, at no charge to bring costs down to a feasible level (typically, to within 10 – 15% of the latest mutually approved estimate).
>
> Conversely, when construction cost comes in below budget or estimate (typically resulting in construction going ahead) the architect (despite having been instrumental in saving the client money) would incur a loss if retroactive fee adjustments were to be made.

As a means of retaining empirically valid percentage fee scales but removing the foregoing concerns, there is no retroactive fee adjustment. Rather, the fee for the basic services in any phase of the project is calculated (in agreed portions per phase) as a percentage of the "construction cost" mutually agreed at the **beginning** of that phase.

The result, in effect, is a series of fixed fees, in each phase of service. That removes any inequity (real or perceived) and allows both client and architect to proceed on the basis of known cash flow in each phase."

2.5 The key for all parties is to avoid unpredictable fee changes due to fluctuations in construction-industry market conditions.

2.6 For purposes of illustration, consider an architectural commission for services under AIBC Contract 6C for a project with a Construction Budget of one million dollars ($1,000,000). The total net architectural fee is agreed to be 4.5% (engineering and specialist fees would be in addition, as is standard).

2.7 Furthermore, it is agreed that the total net architectural fee ($45,000 anticipated) is to be apportioned against the standard five phases of the commission (consistent with section 3.2 of the Tariff's recommended ranges in each phase) as follows:

1. Schematic Design	**2. Design Development**	**3. Contract Documents**	**4. Construction Procurement**	**5. Construction Administration**
15% = $6,750	15% = $6,750	40% = $18,000	5% = $2,250	25% = $11,250

2.8 Should the Construction Budget (as mutually agreed at the commission's outset) become the eventual Contract Price and be matched by each interim estimate of Construction Cost as produced by the architect at each transition to a new phase, then the initially anticipated total fee (and each phase's anticipated fee, as noted above) would be precisely realized. In practice, however, market conditions, timing and a variety of other factors (including, but not limited to escalation; inflation; project delivery methods; unforeseen conditions; project (especially construction) duration; code changes; quality adjustments and changes in project scope, however subtle) rarely combine to cause the initial Construction Budget to be so precisely and regularly matched at every project milestone.

2.9 The tabulation below illustrates a sample evolution of construction costing, along with the appropriate phases' architectural fees (leaving aside earnings which might arise from changes during construction and the provision of "additional services", which are separately handled and calculated). The total architectural fee in that set of circumstances is $48,037.50, as opposed to a fully retroactive fee of (.045) 1,150,000=$51,750.

$1,000,000 Budget	**$1,100,000 Estimate**	**$1,050,000 Estimate**	**$900,000 Estimate**	**$1,150,000 Contract Price**

1. Schematic Design	2. Design Development	3. Contract Documents	4. Construction Procurement	5. Construction Administration
.15(.045)1,000,000	.15(.045)1,100,000	.40(.045)1,050,000	.05(.045) 900,000	.25(.045) 1,150,000
= $6,750	= $7,425	= $18,900	= $2,025	= $12,937.50

2.10 This recommended method of phased percentage-fee calculation responds effectively to potential client criticism that the architect may have a conflict of interest in trying to keep a project within budget because it will reduce the architect's fee. The architect still has the ability to invoice for services related to earlier phases resulting from revisions or additions to the scheduled services, even though the project is in a later phase. The method has benefits similar to those of a fixed fee.

2.11 Architects, their clients and consultants are reminded to review not only their contracts but also, with respect to ensuring appropriate fee structures and business practices, the complete current edition of the *AIBC Tariff of Fees for Architectural Services*. That document (available at no charge at www.aibc.ca) includes helpful information with respect to, amongst other factors, alternate methods of establishing fees, partial basic services, percentage fees, operating assumptions, construction costs as the basis of percentage-fee calculation, and payment mechanisms.

2.12 The use and application of equitable business practices are fundamental to a project's success. Architects and clients are invited to share their experiences and suggestions with the AIBC at PracticeAdvice@aibc.ca.

Practice Guideline Amendment History (2005 – 2019)

2019: October. New graphic template. Renamed Practice Guideline, formerly Practice Note. References to Practice Note updated to Practice Guideline.

2017: December. New graphic template applied. Reviewed for content accuracy; no substantive changes made.

2008: April. Third Revision

2005: January. Second Revision

The AIBC does not provide legal, accounting or insurance advice and expressly disclaims any responsibility for any errors or omissions with respect to legal, accounting or insurance matters that may be contained herein. Readers of AIBC documents are advised to consult their own legal, accounting or insurance representatives to obtain suitable professional advice in those regards.