

Cost Estimating- Pricing Components

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Estimating Component Cost – A Critical Step

- Cost estimating is the second major part of the reserve study process
- WHY is pricing / valuation so important?
- Valuation is a separate discipline from component evaluation or financial analysis
- Valuation requires different skills and training

Estimating Component Cost – A Critical Step

- Cost estimating is a profession with specialized skills, training, education, and certifications
- There is some math, so it's scary to a lot of people
- There are many moving parts in a big estimate: designers, insurance, labor, materials, equipment, subcontractor and more

Topic 1 - What is Cost?

Cost elements include:

- 1) Material
- 2) Sales tax
- 3) Delivery
- 4) Installation
- 5) Removal of item being replaced

Topic 1 – What is Cost?

Additional Costs Elements Could Be:

- 1) Engineering design cost
- 2) Permits
- 3) Labor
- 4) Disposal costs

Topic 2 – Cost Sources

Sources

- A) Contractor cost guides
- B) Bids from vendors
- C) Vendor estimates
- D) Prior actual costs
- E) Contracts
- F) Reserve Professional Cost Database
- G) Prior Reserve Study

Topic 2 – Cost Sources

Hierarchy of cost sources – what is the reliability level of each source?

- 1) Contracts
- 2) Bids from vendors
- 3) Vendor estimates
- 4) Prior actual costs – loses reliability as it ages
- 5) Contractor cost guides
- 6) Reserve Professional Database
- 7) Prior reserve study

Topic 3 - Contractors Pricing Process

- **Fixed price (also called lump price) for the entire project**
- **Time-and-materials contract (or cost-plus).**

Most HOA and Condo communities are protected better by Lump Sum Contracts

Topic 3 - Construction Bidding Steps

1. Receive Solicitation
2. In-house estimating and pricing
3. Submission
4. Selection
5. Contract
6. Project Begins

Topic 3 - Items in the Construction Contract

1. Contact Information
2. Scope
3. Existing Conditions
4. Cost
5. Terms of Payment
6. Relevant Documents
7. Schedule

Topic 3 - Contract Options

1. Design with Cost, Plus Fee
2. GMP – Guaranteed Maximum Price
3. Lease - Leaseback.
4. Time and Material plus Percentage
5. Lump Sum

Topic 4 - Self Construction by HOA

1. Size and ability of work force
2. Adequate tools for the project
3. Indirect costs
 - a. Insurance- health, liability
 - b. Payroll taxes
 - c. Vacation, holidays, sick days, training etc.
4. Pricing and buying power and material knowledge

Topic 4 - Self Construction by HOA

- Different cost issues must be considered
- Largely an accounting issue
 - Which fund is paying?
 - What costs are included?

Topic 5 – Presenting Cost Information

- 1) The reserve study is a budget
- 2) The reserve study is not a maintenance plan
- 3) Scope of component detail

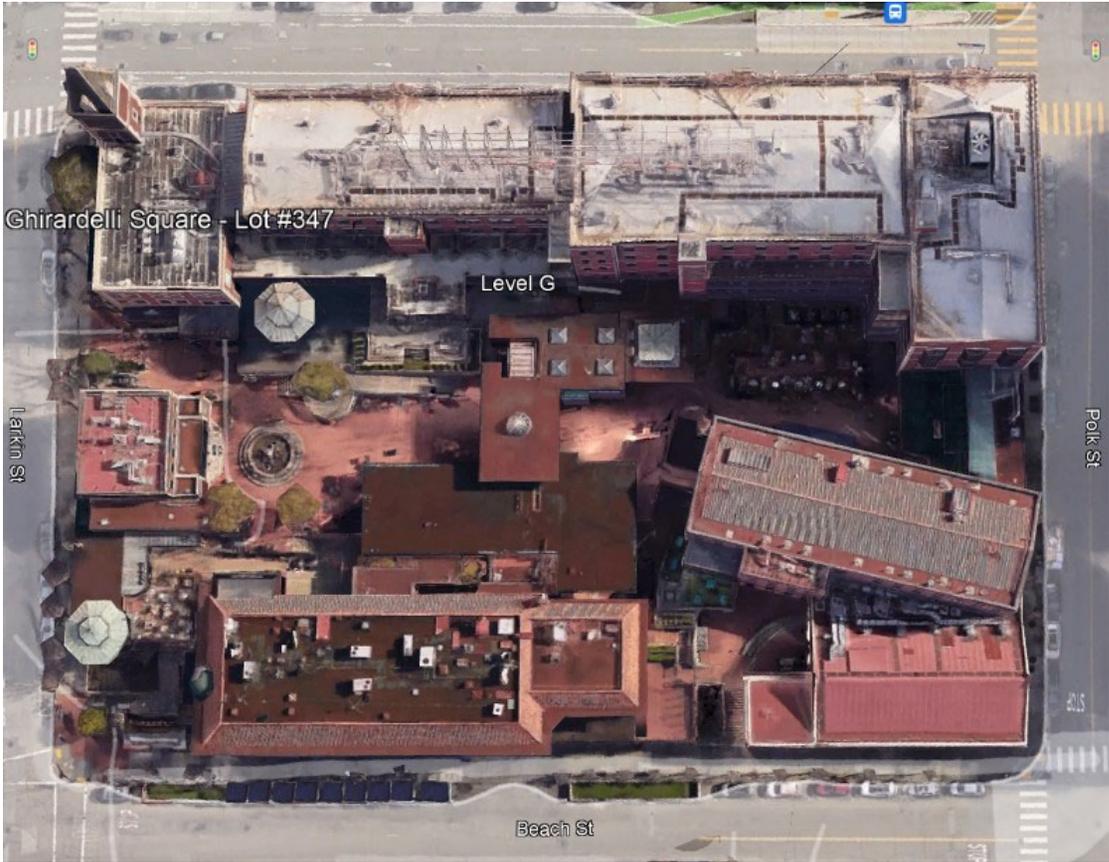
Topic 5 – Cost Case Study

Aerial view



Topic 5 – Cost Case Study

Satellite view



Topic 5 – Cost Case Study

In this situation cost to replace boilers and chiller must include:

- 1) Engineering cost
- 2) Permits
- 3) Crane
- 4) Street traffic control
- 5) Direct material cost
- 6) Installation
- 7) Disposal cost
- 8) Sales tax
- 9) delivery cost

Topic 5 – Cost Case Study

Roof view



Topic 5 – Cost Case Study

Roof view



Topic 5 – Cost Case Study

Roof view



Topic 5 – Cost Case Study

Cost factors - Option 1

1. Boiler full replacement	\$ 350,000
2. Burners Replacement	\$ 8,500
3. Electronic Controls	\$ 12,000
4. Expansion Tank	\$ 4,500
5. Valves	\$ 2,500

Topic 5 – Cost Case Study

Cost factors - Option 1

- | | |
|------------------------------------|------------|
| 1. Boiler full replacement | \$ 350,000 |
| 2. Interim Minor Replacement Costs | \$ 27,500 |

Topic 5 – Cost Case Study

Cost factors - Option 1

1. Boiler full replacement \$ 377,500

Topic 5 – Cost – Perception is Everything

- HOA just paid \$ 5,841.16 to replace a component
- What current replacement cost do you put in the reserve study?

Topic 5 – Cost – Perception is Everything

- Rounding to next highest \$100 or \$1,000 is preferable
- EXACT cost figures imply a level of accuracy that is not achievable – builds the wrong expectations
- Based on a recent actual cost of \$5,841.16 my estimate of current replacement cost would be:
 - \$5,900
 - \$6,000
 - Or higher

Questions?

