

SOFT COSTS are any costs that are not considered direct construction costs or “hard costs.” These costs typically are associated with non-tangible items, such as design, fees, taxes, and insurance. Soft costs can be a significant part of a project’s budget.

Types of Soft Costs

Soft costs can be incurred anywhere along the life cycle of a project: concept, pre-construction, construction, and post construction. They include everything from architectural and engineering fees to legal fees, pre- and post-construction expenses, permits and taxes, insurance, etc.

They can also include movable furniture and equipment (as opposed to fixed equipment included in hard costs) such as computer data equipment, telephone systems, etc. Depending on the project, soft costs can also include expenses that are incurred post construction such as building maintenance, insurance, security and other fees associated with the building’s upkeep.

Common soft costs are often broken out into different categories of costs. Below is a quick look at some of the costs in these different categories.

Architectural, Design, Studies fees

These fees include feasibility studies such traffic studies, geotechnical studies, testing consultants, professional services, and health and safety experts. Of course there are architectural fees, master planning, interior design, and engineering fees

Land, Permits, Survey, Studies fees

Land and real estate costs associated with the legal process, appraisal fees, land acquisition, assessments, land survey fees, and costs for inspections and fees for permits paid to local governments related to applications, cost to file, occupancy permits, etc.

Rentals, Equipment and Tools

These are cost not related to the final project delivery which include office trailers and equipment, cellphones, radio communication systems and staging area equipment.

Loans, Accounting, Finance and Insurance fees

These fees include loan generated interest, bank transaction fees, accounting expenses including software and data input, and construction loan commitment

fees, broker fees and permanent commitment fees along with all required insurance, dues for bid bonds, professional liability insurance and performance bond fees.

Project Management, Taxes

These fees include compensation for the staff required to handle construction related documentation and drawings, security and safety staff, temporary staffing, runners, and of course, all taxes on the project assessed by local and state agencies.

Advertising, Marketing, PR fees

These fees can be for sales and leasing activities and include brochures, websites and on-site pre and post signage along with open houses and community related activities with neighborhood groups to develop buy-in and cooperation on a project.

Post-Construction

Upon completion of the project soft costs may include lingering legal fees, sales/leasing, building management fees, repair and maintenance, replacement costs, landscaping, security, insurance and taxes. And replacement costs for things like such as movable furniture, hardware and software, security, internet and telephone systems.

Common Mistakes with Soft Costs

Early on in the development process it is overlook less obvious soft costs like permits and inspection fees. Also watch out for leaving out dumpster, temporary power like generators, and unforeseen site prep costs. It is also easy to miss the impact of local and state taxes.

Soft costs are more intangible and look out into the future a lot longer than hard costs. Depending on the type of project, It is easy to underestimate legal cost and operating expenses, especially after five years. It is easy to omit or underestimate reserves for replacement costs or omit expenses for tenant turnover such as repairing carpets, draperies, appliances and repainting.

Conclusion

Soft costs can typically account for roughly 25 to 75 percent of a total construction budget. Varying project specifications and changing economic factors can make estimating soft costs more difficult.

Since the accuracy of an estimate can make a difference in whether or not a project is feasible choosing an experienced owner's representative, like DAE Group, can provide you with the confidence you need to bring your project in on-time and on-budget.