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**BUILDERS'
QUOTES**

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BUILDERS' QUOTES

...why cheapest isn't always best

How do you make sure the quotes you get for your building project are realistic, and how do you select which quote to go with? Michael Holmes explains

The idea of getting several prices for your project – the competitive tender process – is designed to encourage building contractors to keep their margins down, so you can find the best price. The good news is that there is currently less speculative development work around, and so contractors are likely to be paring down their margins to ensure they keep a steady flow of work, which means that quotes should be both easier to obtain, and more competitive. However, comparing quotes from several builders is not straightforward, as price is far from the only variable — you should never base your judgement on price alone.

Everyone's dream is to get their building project completed in the shortest possible

At the other extreme of the builder market is the small contractor who may have at most two or three employees on his books, with the bulk of the building trades undertaken by a network of subcontractors that they can pull in, as and when they need to.

They, too, will be able to provide you with a quote for your new home, and will agree to work to some form of contract. With smaller overheads to maintain, and a less expensive workforce, the smaller contractor's price is likely to be considerably lower than a large contractor's — perhaps £1,200 – £1,800/m² for new build work.

The quote you receive, however, is unlikely to be anywhere near as detailed as the one provided by the main contractor. The larger firm will almost certainly have used a quantity

surveyor to work out the price to the last minutiae. The smaller contractor is more likely to have relied on their experience to come up with estimates for each aspect of the project, making the two quotes difficult to compare.

Whichever route you choose, you should end up with the same house. Go with the cheaper price and you will *usually* save money, but the downside is that the job is likely to take longer, depending on how much other work the contractor has on at the same time, and how busy – and reliable – the subcontractors that they depend upon are.

These two examples illustrate some of the reasons why prices for the same work can vary so enormously, but there are many others that you should take into account when comparing quotes. ▶

“The smaller contractor is more likely to have relied on their experience to come up with estimates”

timeframe and on budget. This ambition is achievable, but usually at a price, and usually only if you hire a main contractor with a large well-organised workforce, good experienced project managers, and if you have a set of accurate drawings and specification documents with every detail finalised.

Whilst this level of organisation will allow your project to progress as near as possible like clockwork – and you will have the security of a watertight formal contract with penalty clauses for late completion – this is a very expensive way to build. At £2,000 – £3,000 for new build work, plus 7-12% in supervising architect's fees, this route is well beyond what most self-builders would be willing, or are able, to pay.



Why Quotes Vary So Much

Contractors' prices can often bear little resemblance to each other — here's why

- Contractors may vary their mark-up/profit margin according to whether or not they want the job, depending on how busy they are, the complexity of the project, what sort of client they think you will be (easy or difficult), and in some cases what they think you can afford to pay
- Contractors make allowances for Provisional and Prime Cost Sums (see page 132) in different ways and that can distort the final figure
- Labour rates will vary according to the size of the business and whether trades are employed or self-employed
- Overheads (offices etc.) will be higher for larger firms
- Some contractors pare their price down to get the job and later exploit loopholes in your drawings or specification to charge for variations — otherwise known as 'extras' that inflate the final price you pay
- Contractors handle the pricing of variations to the contract — the changes you make or which turn out to be necessary — in different ways and this has cost implications
- Some contractors use quantity surveyors, others price work themselves
- Some use standard measured rates (standard average labour and material prices)
- They may interpret the plans, specification and quantities differently and with differing degrees of accuracy
- They may include exclusions or other special conditions
- Some contractors work together (compare quotes) to create a bias in the process to fix prices locally
- Some may include an insurance-backed guarantee in their quote
- Some will include allowances to cover any penalty clauses in the contract you choose to use
- Some inexperienced contractors may make serious omissions

Getting a Quote

To get an accurate price, you'll need to supply builders with lots of information

The starting point is inviting builders to quote for your project — as opposed to giving you an estimate of the cost. A quote is a more binding price calculated using the information you, or your architect, provides. A builder will not be able to produce a quote until you have full plans and a detailed specification. The documents required by a builder in order to prepare a quote, known as the 'tender documents', need to include the following information:

- A full set of all plans and drawings
- Specification documents with as much detail as possible
- Details of any materials you will be providing
- Details of any work you will be handling or subcontracting
- Details of any contract you intend to use
- Details of any preliminaries (demolition, site clearance etc.)
- The format you want the quote to take ▶

QUOTES VS ESTIMATES

A **quotation** (quote) is a fixed price that can't be changed once accepted by the customer. An **estimate** is an educated guess of what a job might cost, but it isn't binding. You're looking for quotes based on full specification documents and plans, as opposed to estimates.



Specification Documents

The key to a successful tendering process is ensuring that your builders have the right information to quote from

Smaller Projects: For a relatively simple project such as a small extension, the specification documents might only consist of a set of the approved plans and Building Regulations drawings together with the approval notices and conditions, plus information provided by you explaining what you want in terms of lighting, power points, fitted furniture, kitchen and bathroom fittings, floor finishes, etc, including brand and product names. You must also include details of any work you will be handling yourself on a DIY basis, or which you plan to subcontract directly, any materials you plan to supply, and any other special requirements.

A smaller contractor may be willing to prepare a quote on this basis and to make allowances for any 'grey areas' where there is insufficient detail for them to provide an accurate price. These allowances are known as either Provisional Sums or Prime Cost Sums (see page 132). A contract for this sort of project is available for free from The Federation of Master Builders (www.findabuilder.co.uk) but any contract you use, formal or informal, should describe the works both 'specified and implied', to oblige the contractor to take into account all works necessary in order for the project to be completed.

Medium and Large Projects: For a larger and more complex project such as a major extension, or a new house, it is always worth having a full specification document written out by the project designer. This is a written specification that supplements the notes on the drawings and is likely to run into dozens of pages, depending on the extent of the works. It will typically include a description of the materials, technical standards and techniques that are to be used for each aspect of the build.

In addition to the drawings prepared for the planning application and for the Building Regulations and copies of the approval notices and conditions, it will be necessary to produce and submit detailed larger-scale working drawings of any unusual or individual details that you want the builder to price for.

A covering letter may also indicate the basis on which tenders are invited, including the format the quotes are to take. A standard format is to show a bill of quantities, with each aspect of the work shown individually, with a breakdown of labour, materials, plant hire, and project management charges — the mark-up applied for project management. It may also indicate how allowances such as Provisional Sums and Prime Cost Sums should be treated, to make it easier to calculate actual costs later. Having a common format creates transparency and enables

If you are retaining your architect or another professional to administer the contract, then the 'HO/C Building contract and consultancy agreement for a home owner/occupier' contract is the one to go for. If you are not using an architect or other professional to administer the contract, the most suitable contract is the 'HO/B Building contract for a home owner/occupier who has not appointed a consultant to oversee the work'.

Most standard contracts include a retention clause, and some also choose to include penalty clauses for late completion and incentive clauses for early completion.

The tender documents must also make clear who is responsible for preliminary costs, such as site access, security, storage, WC facilities, rest facilities, provision of water and power, site insurance, warranty cover, etc.

Finally, the documents must make it clear if you plan to subcontract any of the work directly to 'nominated subcontractors' or to

“For a larger project, it is always worth having a full specification document written out by the designer”

different quotes to be compared on a like-for-like basis.

It is also necessary to indicate when the works are to be commenced and completed, working hours and days, and what form of contract is to be used. There are several standard contracts available, including the range of JCT Contracts (Joint Contracts Tribunal) that are the industry standard.

handle any work on a DIY basis. The contract needs to identify who is to be responsible for this work should there be any defects or delays, and how the implications of this in terms of delays and additional costs are to be dealt with. ▶



Comparing Quotes

Assuming you're lucky enough to get quotes back from the building contractors you've contacted, how do you go about comparing what you've got?

Ideally you should aim to get at least three different quotes for your project. To achieve this you will probably have had to identify at least a dozen potential builders and have invited at least seven or eight to tender for the work — several will probably not respond depending on how busy they are.

Each quote then needs to be assessed in its own right, and you need to assess how complete the price really is, and how many areas there are where the price is not firmly tied down.

It is probably best to ignore items that have been priced with a Provisional Sum and instead compare the measured rates which they have used to arrive at the figure, and which they will apply to calculate the final cost. The final quantities are likely to be the same whoever undertakes the work.

Once you have analysed each quote and chosen one or two that look both competitive and realistic, you can start to go back and try to negotiate on different areas where you

think one may have charged considerably more than the others: you may be able to get them to revise the costings downwards. Some people choose to commission a quantity surveyor to produce an independent cost assessment and this can be a useful tool to use in negotiating prices with a contractor where large sums are involved.

You should always be very cautious of quotes that appear too good to be true — because they usually are. If a single quote comes in well below the others, it is likely either to have omissions, or the contractor may be planning to make up the difference once they have secured the contract by exploiting loopholes in the specification and tender documents, or by overcharging for any variations you later make to the contract — it is unlikely that you will make no changes, and some variations are usually necessary on site anyway due to errors, omissions or lack of clarity on the drawings. ▶

My Experience

Editor Jason Orme recalls his experience of the tendering process

The designer and I made up a list of preferred builders and invited them all to an 'open day' at the site. About half of the builders who said they would turn up actually showed (five). We spoke to the select few about the project, showed them the site, and presented them with a full set of plans and specification documents.

A month later we chased up the builders we met to see where their quotes were. Three had got back to us — two with realistic prices a little over our budget and one wildly over. Luckily, the cheapest was the one I preferred anyway, so I went to see his previous projects and proceeded with him, splitting the contract in two — to the watertight stage, and to completion — in order to incentivise a strong start to the project.



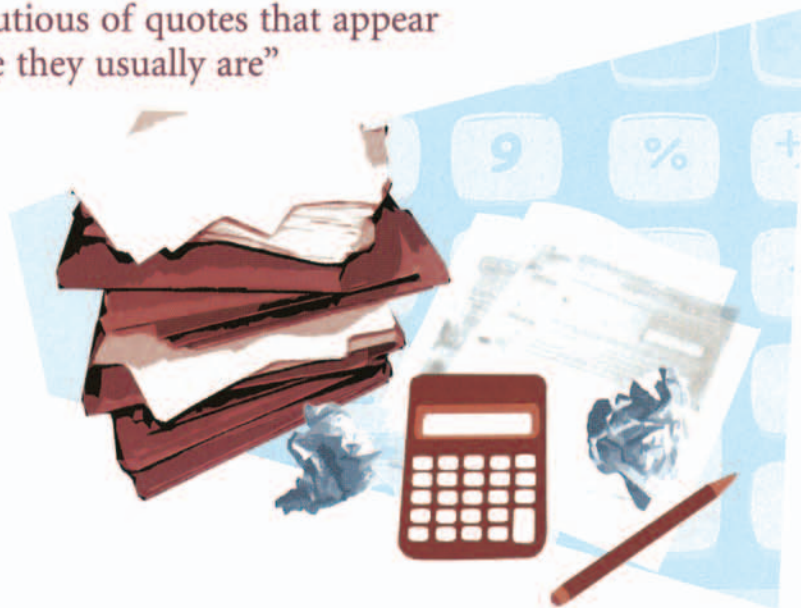
“You should always be very cautious of quotes that appear too good to be true — because they usually are”

WHAT IF THEY'RE ALL TOO HIGH?

It's perfectly possible that all of the quotes you get back will be in excess of your expectations. This may well be because your expectations are too low (they should be based on the Build Cost Guide in the back of this magazine) but it might also be due to other reasons.

The most likely reason is that you're living in an area where there still isn't a lot of competition between builders — or too much demand for their services, meaning upward pressure on prices.

The solution is not to go back to them and ask them for a more competitive quote — but rather to go over the quote and try and work out if there are any savings you can make (perhaps reducing their involvement on site) through materials or labour. You might also consider asking more builders to tender.



Selecting a Building Contractor

It's not easy to see past the cheapest price — but your selection should be based on much more

Price is obviously a major factor in deciding which contractor to appoint — however, there are other considerations to make in selecting the most suitable builder for your project. Choose the one that scores highest across each of the following measures:

- A competitive price (having analysed the quotes)
- A fair and reasonable approach to variations and extras
- An understanding of your objectives
- The availability you need
- Relevant experience
- Good references from clients and suppliers
- The workforce and contacts needed
- Willingness to agree payment terms that suit you
- Willingness to work on the basis/contract you require
- The guarantees you need e.g. a structural warranty such as NHBC
- VAT registration: you cannot benefit from zero rating for VAT on materials for new build, or most of the VAT concessions on renovation work if the builder you hire is not VAT registered

Bear in mind that whichever quote you accept, a builder is unlikely to be prepared to make a loss on a project if it ultimately turns out that they have under-priced the contract. They will look to recover at least their costs, if not their profits, and this can lead to disputes further down the line — when it is much more difficult to do anything about it. It is far better to have an accurate and realistic quote in the first place and it is your responsibility to make sure of this. The best way to do this is to look at other people's build costs in the back of this magazine and at www.homebuilding.co.uk ■

“Whichever quote you accept, a builder is unlikely to be prepared to make a loss on a project if it ultimately turns out they have under-priced the contract”

Provisional Sums

A quote may include allowance sums — here's what to look out for

A contractor's quote will include allowances for items that are estimated, known as Provisional Cost Sums (PC Sums). PC Sums are given for items for which it is impossible to accurately quote a fixed price. There can be many in renovation work and in a conservation project almost all of a quote will be PC Sums.

The quote will also include allowances for Prime Cost Sums. These are items that have not yet been finalised but which will be chosen by you the client, such as kitchen furniture and bathroom suites. Normally, a quote will make an allowance for Prime Cost Sums including a handling fee, an estimate for the labour involved and a charge of around 5-10% for project management.

BEWARE THE MEASURE

Gross internal floor area is the measure most designers use (the most common in the industry). It's the area of a building measured to the internal face of each perimeter wall for each floor level. It includes areas occupied by internal walls and partitions. There are, however, alternative measures, particularly 'gross external area', which is simply the measure from outside wall to outside wall.

The difference between the two can be in the region of 15%, and as a result it's worth clarifying on your plans (and with the quoting builders) which measure you're using.

