

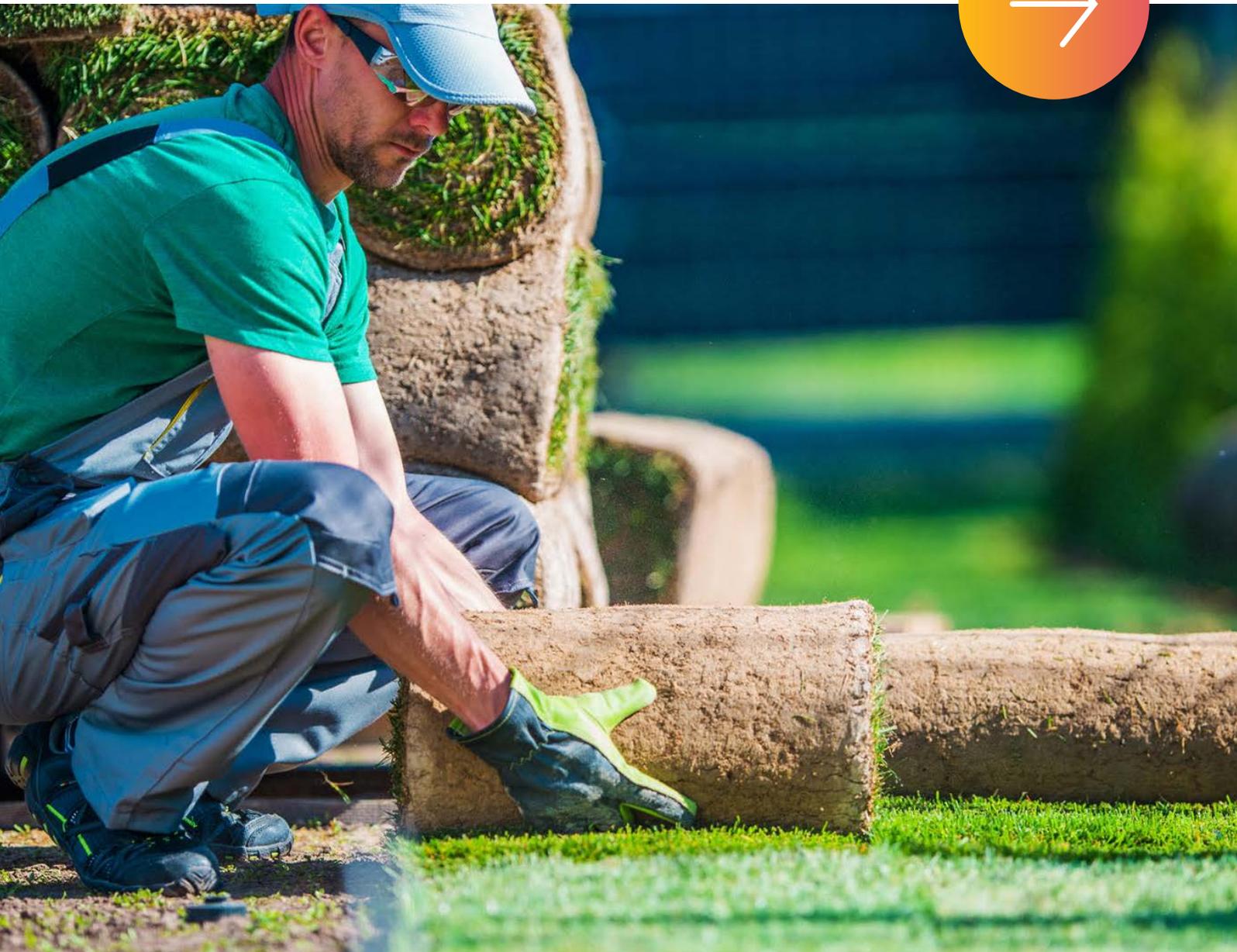
# WHAT ARE SOFT COSTS IN CONSTRUCTION?

eBook

 BUILDXACT

When [estimating the costs of a construction project](#), builders and remodelers need to include all of the costs of the project which are traditionally separated into two types: hard costs and soft costs.

Here we will explore the difference between these two types of costs, give some examples of soft costs, and explain why soft costs need to be included in project budgets.



# Construction hard costs

It's actually easier to define soft costs in construction by looking at their opposite, hard costs

Hard costs are expenses from the construction of a building or project or that are caused by the process of construction. They include the materials, equipment, labor, and other expenses needed for physical construction of a project. Lumber, steel, plumbing, electrical, and masonry costs are all examples of hard costs

Hard costs generally occur only during construction. There may be some early expenses to purchase materials or mobilize contractors, but the majority are incurred while the work is ongoing.

# Construction soft costs

Soft costs are all of the other expenses involved in a construction project that do not deal with the physical construction or process of construction. Most of these costs are for non-tangible items, such as services, fees, and insurance.

Engineering, permits, marketing, and [project management expenses](#) are considered soft costs. Soft costs are incurred from the preplanning stage of a project to post-occupancy and beyond.

# Examples of soft costs

Depending on the type of project and scope of work, the types of soft costs for a specific project may differ. For example, a small remodel that includes only painting and flooring will probably not require design fees or permits. While a new building with tenant spaces to lease will have soft costs including marketing, insurance, permits and other development costs.

Here are some examples of soft costs typically found on construction projects:

## **Design**

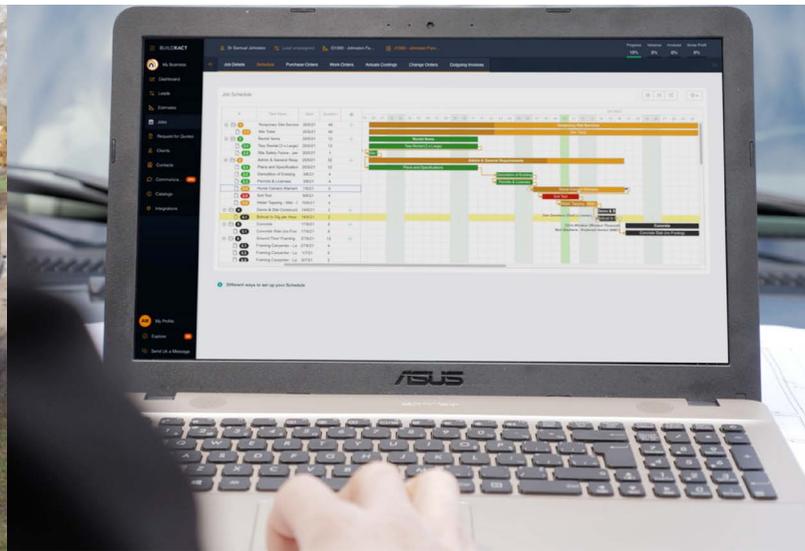
Architecture, design fees, and engineering costs are included in soft costs. These fees pay for design services and may include designers, engineers, interior decorators, and other design consultants.

## **Permits and surveys**

More extensive remodels will require building permits and plan reviews by the local jurisdiction. The project may also require a survey of the property to determine elevations and property lines.

## **Rentals**

Rentals on a job site can include both equipment and office space. You might use mobile trailers or Conex boxes for material storage and workspace. Equipment may include forklifts, man lifts, scissor lifts, and other equipment.



## Financial and insurance

All projects require insurance to protect the builders, contractors, and workers. This insurance usually includes property insurance, general liability insurance, workers compensation, and builders risk coverage to protect the project during construction. There may be other financial-related expenses such as bonds and accounting services that are expensed to the project.

## Project management

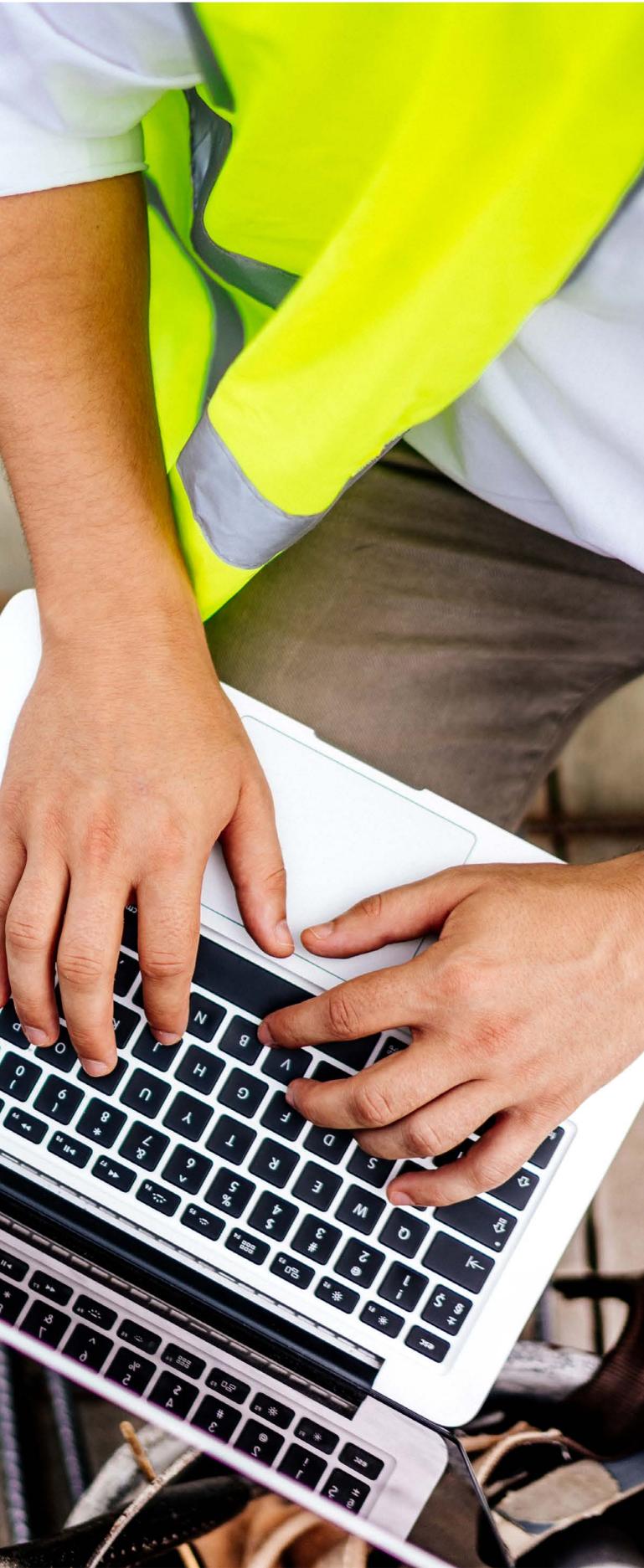
Overall project management costs are soft costs. This may include expenses for a project manager or an independent owner representative. [Project management services provided by the general contractor](#) can also be included here or may be considered part of hard costs.

## Marketing

Any expenses by the owner to advertise the new building or recruit employees or tenants is included as a soft cost in the project budget. This could include advertising, signage, flyers, banners, etc. [Read more: 10 ways to market your residential construction business](#)

## Post-construction

Post-construction expenses, such as those involved with moving in, building lifecycle maintenance, change of tenants, and other post-occupancy expenses, may be included in the project budget. Some budgets may project these expenses over time to determine when you get your return on investment.



## Including soft costs in your project budget

When developing [an estimate for a construction project](#), you should include both hard costs and soft costs. It's the only way to truly [estimate the cost of a project](#) which in turn impacts your profit later down the track.

Soft costs are important to include in project budgets because they can make up 25 – 50% of the total project budget. Quantifying them early in the project is also important so you can calculate your return on investment.

# Stay on top of your cost estimates with Buildxact.

Construction management software, like Buildxact, helps you estimate what are considered soft costs and hard costs, so you can quickly and easily develop more accurate cost estimates.



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