

BY DAVID GERSTEL

## A Big But Often Overlooked Cost of Building

David Gerstel has been a licensed builder for four decades and is the author of the construction industry classic, *Running a Successful Construction Company*. The following article is adapted from his new book, *Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding*.

**Right at the beginning** of my new book, I offer this encouragement: “You *can* nail your numbers.” I want to emphasize to readers that bidding and estimating can be mastered, though it is not easy to do so. (Of course, it’s not. Is there any construction industry skill that’s easy to master?)

In fact, you can master estimating to the point that your projected numbers for the direct (on-site) costs for building your projects will vary, on average, from the actual costs by a mere one or two percent. That is, on any given project, you may run off somewhat one way or the other. But over a series of projects, the slippages will balance out.

The “trick”—or the skill, actually—to nailing your numbers comes down to abiding by four fundamental rules of estimating:

1. Don’t miss any work called for or implied in the plans and specs.
2. Don’t miss any component of labor costs, from wages all the way through minor insurance burdens.
3. Don’t miss any of the costs for materials to be used by your crew all the way through consumables, like dry line and pencils, and delivery charges.
4. Make sure that none of the work you are subbing out falls between trade partners and is, thereby, left out of your estimate.

A category of items that are especially easy to miss, but that must not be neglected, is best described as “General Requirements.” GRs are a big cost on virtually every project, yet they are often underestimated or outright overlooked because they are merely implied in the plans and not explicitly called out. Even detailed specifications may barely mention them. For example, daily cleanup is a significant GR. Likewise, a portable toilet, temporary power, and erosion control devices are often required but are called out only in comprehensive specs.

It is critical to spot such items during estimating. If they are missed, an estimate can wander way off target—towards the low side. For that reason, *Nail Your Numbers* includes an entire chapter on the subject.

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GRs such detailed attention. I thought that they would be obvious to every builder who took the business side of his work seriously enough to spend money on my book, and that I’d be wasting readers’ time if I made more than passing mention of them. I was wrong.

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The need for a detailed discussion of GRs started to dawn on me as I was doing the research for *Nail Your Numbers*. I was interviewing a builder I will call “Ed,” sitting beneath the 200-year-old ridge beam of the cabin that he repurposed as the kitchen space for his beautifully crafted home. I had asked him how he handled General Requirements in his estimates.

Ed considered the question and said, “I don’t think I know what you mean by General Requirements.”

I was startled. Ed had worked in the world of construction for over 30 years and not become acquainted with GRs! I scratched up a quick answer. “Well, items like jobsite cleanup at the end of every day.”

“I think of that sort of thing as marketing,” Ed replied. And he did not mean that he recaptured his costs for cleanup as marketing within his markup for overhead. What he meant was that he did the work for free. He did it in order to build client satisfaction; and he considered that satisfaction pay enough.

I did understand his reasoning up to a point. A well-kept jobsite does create client satisfaction. But, I also thought to myself, clients likewise appreciate tight framing, a superb level-five drywall finish, and crisply mitered trim. Extending Ed’s logic, we could give away some of that, too, and call the giveaways part of our marketing



Are you having trouble capturing all the General Requirements in your estimates? Here's a way to sharpen your awareness of them. When you notice someone else's job, pull over and scan the site. See how many GRs you can spot. Meanwhile, try scanning the site shown above for General Requirement items. I see five, listed below.

They are: Portable Toilet. Scaffolding. Recycling. Temporary Power. Gate. And there are arguably two or three more that are at least implied.

program. Why stop at providing free General Requirements?

Overlooking General Requirements is a serious matter. As we will discuss below, they can run to a very substantial percentage of the cost of a project, amounting to even more than profit mark-ups. Yet it turns out Ed is far from being the only builder who is unaware of them. Wayne Del Pico, a construction consultant and author with experience in commercial, retail, and public as well as residential construction reports that builders regularly ignore GRs. "General Requirements such as scaffolding," he reports, "are assumed to have no cost" because they are seen as not directly related to production. Scaffolding? No cost? Not related to production? Good grief, really!

#### DEFINITION OF GENERAL REQUIREMENTS

So, just what are these General Requirements that regularly escape attention during estimating? Some builders think of them as "project overhead," or "indirect overhead" as opposed to direct

overhead costs, namely expenses such as those for office computers that are incurred off the jobsite. I prefer to stay away from those terms. There's enough confusion and controversy around "overhead." Why further muddy the waters by using the word to describe very different costs? GRs are jobsite costs, not costs incurred away from the jobsite, as "overhead" implies.

Here's my definition of General Requirements: All those items of work at a construction site necessary to build a project, but that do not become a permanent and visible part of the project. Thus, subflooring is not a General Requirement item. But hauling the cutoffs to the dump, along with other waste, is. The labor and material for setting new plants as part of landscaping a project is not a GR. The labor and material for protecting existing plants are General Requirement items. As for Ed's daily cleanup? That is definitely a GR item, and it is a costly one for builders who do a good job of it.

Of course, like any idea, my definition has a limited range of convenience; you can apply it only so far before you run into counterproductive distinctions. For example, material for subflooring is definitely not a General Requirement cost. But the delivery charge for bringing the material to your jobsite could be considered a General Requirement cost. After all, it does not show up in the completed building. But for purposes of estimating (or for job costing), it's not worthwhile to separate out the delivery cost and stick it in GRs. Because you will likely pay for it with same check you issue to pay for the material, it's more convenient to account for it together with the material cost.

You could say something similar for special inspections, such as those for on-site welding. If we wanted to categorize everything strictly according to the definition, we'd put the inspections in our GR division. After all, the inspections are not a visible, per-

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manent part of the project when it is completed. But suppose that your estimating spreadsheet is organized in the natural order of construction, from site prep through finish coatings. In that case, you may find it more convenient, more natural, to provide a line for special inspections right along with the structural work for which they will be necessary. You can go either way so long as you provide for special inspections somewhere when you are building an estimate.

That said, there are a great many items of work that are unambiguously GRs. They belong in the General Requirements division of your estimate and, at least as I see things, nowhere else. They can be divided up in various ways. Some estimators prefer to categorize them as either “field” or “management” requirements. My own preference is indicated in the “Selected General Requirements” list, below, where I have listed the categories I favor and provided a few examples of each.

The examples shown here are only a small sampling of all the possible GRs that can occur in a project. The extensive list in my book includes more than a hundred items. And even that list is not exhaustive. Some of the items might strike you as obscure, and you may not have encountered them in your work. Others, however, like steel scaffolding, are frequently experienced GRs that can readily impose major cost. Whether they’re obscure or prominent,

you should have a comprehensive selection of GRs listed in your master spreadsheet/checklist. That’s the only way that I know of to make sure that when it comes to GRs, you abide by that overarching rule of estimating: Don’t miss anything. Providing lines for all your possible GRs will prompt you to check for and spot those costs that are not visible in the plans and specs.

### CONSEQUENCES OF NEGLECT

The financial consequences of neglecting General Requirements can be severe. Even small, niggling items like scheduling (and rescheduling) trade partners and maintaining a photo record of work progress can add up to significant dollars. Costs for big items like scaffolding, daily setup and breakdown, and portable toilets can range from large to huge.

You miss this stuff at your peril. Providing for GRs with just a single line, as did one estimating program I reviewed, or even a few lines, is seriously negligent. That’s a path to going bust because the cost of your GRs can easily exceed the average profits you will be able to capture across good economic times mixed with bad. And going without profit, as I have stressed in *Nail Your Numbers*, is hazardous in the extreme. Profit is not gravy. It is a buffer against a range of unpredictable costs from building failures to litigation that all construction companies experience to some degree.

So what portion of total direct costs do General Requirements typically amount to? That depends on the type of work. Builders I have interviewed who do custom work ranging from kitchen remodels to new homes report that GRs comprise 8% to 10% of their direct costs on average. That is in line with my own experience. However, some cost catalogs that report data collected from a wider variety of builders across the country suggest a broader range of numbers. They show GRs running as low as 4.5% for production builders and as high as 20% for repair jobs and even some remodel projects.

So how much for your projects? As always with estimating, it’s best to find out for yourself. Make sure you are seeing all the items of work for your projects that are invisible in the plans and specs. Make sure you provide lines for them in your estimating spreadsheet or checklist. From there, move to charging for them appropriately, either by gathering complete trade-partner quotes or by accurately figuring labor and material costs by using tools such as the labor productivity records discussed in a previous *JLC* article (see “Nail Your Labor Productivity Numbers,” Sep/18).

Finally, if you have been thorough, then believe in your estimates. Avoid second guessing your numbers for fear of not landing a project. All that counts is not missing anything and standing by your accurately figured numbers. It matters not at all what someone else says your numbers should be.

*David Gerstel’s new book, Nail Your Numbers: A Path to Skilled Construction Estimating and Bidding, is available from local and online book-sellers. To learn more about Nail Your Numbers, go to DavidGerstel.com or Amazon.*

## SELECTED GENERAL REQUIREMENTS

### PRECONSTRUCTION

- Plan check by building department
- Street use permit
- Local business license
- School district fee

### DURING CONSTRUCTION

- Material protection and security
- Hole covers
- Scaffolding
- Waste removal
- Temporary power
- Lighting
- Dewatering

### PROJECT LEAD TASKS

- Ordering material
- Submitting RFIs
- Adjusting trade-partner schedules
- Scheduling inspections
- Keeping of time cards

### POST CONSTRUCTION

- Final roll-up
- Building performance audits
- Occupancy permit