

BUILDING CONTRACTS: BIDDING vs. NEGOTIATED CONTRACT

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Design-Bid-Build is the most common project delivery method. After the construction drawings are completed, most projects are given to general contractors for bidding. We typically solicit three or four bids from a pool of builders we know and who we feel are right for the particular project. It is important to bid the project to similar types of builders. There is little to gain from bidding a project to a custom home builder and a production builder simultaneously.

However, bidding a building project is not the only path to a success. Many projects are not bid, but are negotiated with a qualified general contractor. This is an increasingly popular method. Our recent experience has been that with a complete and all-in set of drawings, the prices will be identical across the bidding spectrum. After all, the contractors are not inventing a bid number; they are pricing a set of specific documents. Accordingly, the prices for windows, siding, roofing, and all specified products will be identical. The builder's overhead and profit will be the only substantive variable. And this is frequently a negotiated percentage.

Often when the project is bid, it is to test the waters and to validate that the preferred contractor is on legitimate and competitive financial footing. Rarely, if ever, is the low bidder hired for the sake of cost only. In the custom home market, the successful project is a complex formula of cost, schedule, personality, and quality. If the function of the bidding process is to validate a cost, then we can fulfill that role without bidding. We have a database of cost data and very rarely are we surprised by a construction cost.

The negotiated contract saves time, money and places the project on a secure path. The form of the builder's contract is often a "cost-plus" agreement. This offers the client the most transparency as all costs are "open-book". "Cost-plus" is the product cost, plus an agreed-upon percentage.

Where a competitive bid is inherently adversarial, the negotiated contract sets up a partnership of cooperation. It is a 'systems' approach to the project: good design, good drawings, good builder. The "deliverable" is not just the finished product but also the experience of the process itself.

A word about contractors: We have been very fortunate to cross paths with great builders. The good builders make us look good. They anticipate and avert problems while celebrating our successes. The builder is at once advocating for their client, for the architect, and the project itself. They are good managers and good communicators. The successful project is built as much through the dialog as through the documents.

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