



## Standard Terminology of Building Economics<sup>1</sup>

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### 1. Scope

1.1 This terminology relates to the economic evaluation of building construction as used in other standards under the jurisdiction of ASTM Committee E06 on Performance of Building Constructions, and does not necessarily correspond to the terminology used in other areas of accounting and economics.

#### DEFINITIONS

**adjusted internal rate-of-return (AIRR), *n***—the compound rate of interest that, when used to discount the terminal values of costs and benefits of a project over a given study period, will make the costs equal the benefits when cash flows are reinvested at a specified rate. (Syn. *financial management rate of return (FMRR)*)

**allowance, *n***—in construction design planning and estimating, an allocation of money that is intended to be spent for a specific purpose.

DISCUSSION—An allowance is used in the absence of precise knowledge, and estimated, to be of one's knowledge, to ensure a full and complete estimate. Allowances cover events and activities that are normally directly controllable within a project plan.

**annual value, *n***—a uniform annual amount equivalent to the project costs or benefits taking into account the time value of money throughout the study period (Syn. *annual worth, equivalent uniform annual value*).

*annual worth, n*—See **annual value**.

**annually recurring costs, *n***—those costs that are incurred in a regular pattern each year throughout the study period.

*base date, n*—See **base time**.

**base time, *n***—the date to which all future and past benefits and costs are converted when a present value method is used (usually the beginning of the study period) (Syn. *base date*).

**baseline plan, *n***—an established scope, cost, schedule, and technical performance plan against which the status of

resources and the effort of the overall program or project activities are measured, assessed, and controlled.

**benefit-cost analysis, *n***—a method of evaluating projects or investments by comparing the present value or annual value of expected benefits to the present value or annual value of expected costs.

**benefit-to-cost ratio (BCR), *n***—benefits divided by costs, where both are discounted to a present value or equivalent uniform annual value (Syn. *benefit-cost ratio*).

**breakeven analysis, *n***—a technique for determining that value of a variable which results in benefits (savings) just equal to costs.

**building decision, *n***—a decision regarding the design, financing, engineering, construction, management, or operation of a building.

**building economics, *n***—the application of economic analysis to the design, financing, engineering, construction, management, operation, ownership, or disposition of buildings.

**building system, *n***—an aggregation or assemblage of items joined in regular interaction or interdependence in buildings or building construction.

**capital cost, *n***—the costs of acquiring, substantially improving, expanding, changing the functional use of, or replacing a building or building system.

**cash flow, *n***—the stream of monetary (dollar) values—costs and benefits—resulting from a project investment.

**certainty equivalent technique, *n***—a technique used to adjust economic measures of project worth to reflect risk exposure and risk attitude.

DISCUSSION—Estimated project returns are multiplied by a certainty equivalent factor (CEF) to determine the *certainty equivalent* amount a decision maker finds equally acceptable to the estimated project returns.

**code of accounts, *n***—a hierarchical, company-specific system for cost accounting, control, and management.

**Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), *n***—also known as “Superfund,” CERCLA prescribes actions and regulatory requirements for reducing risks to human health and the environment resulting from releases or threatened releases of hazardous substances into the environment.

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**constant dollars**, *n*—dollars of uniform purchasing power exclusive of general inflation or deflation.

DISCUSSION—Constant dollars are tied to a reference year.

**construction contingency**, *n*—the funds added to estimated and known costs in case of cost overruns during construction.

**construction documents**, *n*—materials that convey the physical, aesthetic, technical, performance, and administrative requirements necessary to initiate a contract for construction of the proposed project.

**contingency**, *n*—*in construction design planning and estimating*, an allocation of money that is not planned to be spent and is held for unplanned events.

DISCUSSION—A contingency is used in the absence of precise knowledge, and estimated, to be of one's knowledge, to ensure that a financial buffer is available within a budget. Contingencies assist in mitigating the effects of unplanned events and other risks that are normally not directly controllable within a project plan.

**cost analysis**, *n*—subdividing the project estimate into component parts to find and compare their relationship to previously established historical costs.

**cost effective**, *adj*—the condition whereby the present value benefits (savings) of an investment exceeds its present value costs.

**cost limitations**, *n*—the budget boundaries for project elements.

**cost model**, *n*—the description of the project divided into discrete elements showing quantities and unit price for each element.

**cost overruns**, *n*—in project design or construction, or both, the unanticipated increase in cost due to factors such as unanticipated site conditions, changes in the cost of building materials, labor, weather, and labor disputes.

**cost professional**, *n*—in project design or construction, or both, a person engaged in the occupation of understanding, managing or estimating project costs, or a combination thereof.

**current dollars**, *n*—dollars of purchasing power in which actual prices are stated, including inflation or deflation.

DISCUSSION—In the absence of inflation or deflation, current dollars equal constant dollars.

**deactivation**, *n*—the process of placing a facility in a safe and stable condition to minimize the long-term cost of a surveillance and maintenance program and to protect the workers, the public, and the environment.

**decision analysis**, *n*—a technique for making economic decisions in an uncertain environment that allows a decision maker to include alternative outcomes, risk attitudes, or subjective impressions about uncertain events in an evaluation of investments.

**decommissioning**, *n*—takes place after deactivation, and includes surveillance and maintenance, decontamination, dismantlement, surveillance and long-term monitoring, or any combination thereof.

**decontamination**, *n*—the removal of hazardous and/or radioactive material from facilities, soils, or equipment to preclude the occurrence of foreseeable adverse health effects.

**design contingency**, *n*—in project design/construction, the amount of funds added to the estimated construction costs to cover unanticipated construction costs due to the incompleteness of the design, where the contingency is inversely proportional to the level of completeness of the design documentation.

**design development**, *n*—the phase of a project consisting of drawings and document preparation to fix and describe the size and character of the building systems, material, and elements.

**design program**, *n*—the information detailing project function, purpose, and characteristics inclusive of floor area, functional spaces, equipment, and building systems.

**desires**, *n*—the functions that the value analysis team determines to be fulfilled if cost is not a factor, or functions which do not otherwise violate a constraint.

**differential price escalation rate**, *n*—the expected percent difference between the rate of increase assumed for a given item of cost (such as energy), and the general rate of inflation.

**discounting**, *n*—a technique for converting cash flows that occur over time to equivalent amounts at a common time.

**discount rate**, *n*—the rate of interest reflecting the investor's time value of money, used to determine discount factors for converting benefits and costs occurring at different times to a base time.

DISCUSSION—The discount rate may be expressed as nominal or real.

**discount factor**, *n*—a multiplicative number (calculated from a discount formula for a given discount rate and interest period) that is used to convert costs and benefits occurring at different times to a common time.

**discounted payback (DPB) period**, *n*—the time required for the cumulative benefits from an investment to pay back the investment cost and other accrued costs considering the time value of money.

**economic evaluation methods**, *n*—a set of economic analysis techniques that consider all relevant costs associated with a project investment during its study period, comprising such techniques as life-cycle cost, benefit-to-cost ratio, savings-to-investment ratio, internal rate of return, and net savings.

**economic life**, *n*—that period of time over which an investment is considered to be the least-cost alternative for meeting a particular objective.

**engineering economics**, *n*—the application of economic techniques to the evaluation of design and engineering alternatives.

*equivalent uniform annual value*, *n*—See **annual value**.

**ex situ treatment**, *n*—treatment, remediation, or cleanup of contaminated material in a treatment facility at a different location from the contaminated site.