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## CONTRACTORS



Unless you make it a full-time job or are comfortable with having your homebuilding project drag on for years, you will need a general contractor (GC).

General contractors are small business owners, and there can be a lot of variability in their business skills. Many of them evolved into their business from being tradespeople. Some are player/coaches who provide their labor but also supervise. Regardless of who you choose, go with a licensed contractor. If necessary, check credentials with the jurisdiction you'll be building in. Licensure is a good way of separating the pros from the amateurs. It also may provide limited legal or insurance protection if something goes wrong.

Only work with a contractor who can provide you with a certificate of liability insurance or is willing to add you as a named insured on that policy. Additionally, if your contractor employs any workers, ask for proof of the current workman's compensation policy. If something goes wrong on a job site, you could be stuck with high bills and protracted litigation.

Small general contractors may work on million-dollar houses, but that doesn't mean they live in one. Their income is derived from two components: the time they direct bill into the job for physical tasks and the markup they take on labor and materials. At the end of the project, aside from their billable time, the GC will hope to make about a 10% profit on the total project cost.

Every owner will watch their checkbook like a hawk and a perfect transparency model would be managing a homebuilding project based on time and materials. Good luck getting a contractor to do

that. Unlike lawyers who track their time in small billing increments, contractors generally don't know how much time they spend on non-construction tasks (e.g., estimating and ordering). Frankly, they'd probably be shocked at how low their hourly compensation would be if they did.

What's common in the trade is the use of the mark-up model. Markups vary between contractors and regions, but 15-20% is the general percentage applied to labor and materials. So, what are you getting for that markup?

To begin with, your contractor probably gets better pricing than you can at the building supply companies. Good contractors will provide you with documentation to which they'll apply their mark-up. You don't want to do business with ones who don't.

One of the most significant values of a GC is leveraging his or her contacts. The sub-contractors he works with have probably proven themselves on past jobs. Sub-contractors, like plumbers and electricians, can tell you a lot about a contractor regarding how timely he pays and how effectively he communicates. Subs can be a good referral source if you're shopping for a contractor. If you find yourself talking with a subcontractor, ask him who the top two contractors are he likes working for.

GCs are also fiscal intermediaries, as they incur responsibility for expenses before you see any bills. Good GCs rely on their mark-up margin to keep cash flow going.

Being a skilled tradesperson doesn't necessarily make one a good business person. A good GC should bill you promptly after the month's end. The better ones use accounting programs like QuickBooks. However, I've gotten invoices in many forms, from a handwritten page on top of a truck hood (and I supplied the paper), texts, and short e-mails.

I think contractors put generating estimates and invoices right up there with root canals and colonoscopies. You may get lucky and come across a tech-savvy contractor. For my house project, I looked at some very impressive software solutions that, using a smartphone or tablet, could generate estimates and change orders in the field. I

seriously toyed with buying a software subscription for my contractor, but I quickly saw that he was truly old school and would have struggled to adapt to a fancy system.

When we built our house, our GC was very good about sending me a Quickbooks generated invoice, usually by the first week of the following month. He broke out labor costs, materials, and markup. He asked if I'd pay some suppliers directly for specific line items (generally big bills like lumber and electrical). He'd hand me a file folder with all the invoices as backup when we got together. Smaller contractors may ask you to pre-pay for large or special order materials to protect their financial exposure if something goes crossways.

I'd be leery of writing a big deposit check in advance with small contractors. I've heard my fair share of horror stories where the contractor mismanaged a project, and the customer was stuck with nasty surprises. Month-to-month keeps the leash shorter.

When interviewing a potential general contractor, ask them about their billing policy. Ask to see a copy of a past job invoice so you can get comfortable with the level of detail.

If you want to learn more, you can also ask for a contact for a banking reference and a couple of key suppliers or sub-contractors.

The word "builder" is often substituted for general contractor. The term itself does have a broader meaning in that when you're looking for a builder, you're likely looking for someone who can take you through the whole process from concept to front door keys.

My experience with our mountain home was typical. I started looking for a "builder" to handle the entire project. I'd gotten a referral from a trusted friend of a builder in the adjacent county. Trying to get a fire lit under him was hard, and I suspected early on that it would be a dead end.

Our new property came with a septic system, which I needed to learn about. I called the septic company, and after getting my questions answered, I asked the cheerful woman on the phone if she knew of any local builders I could talk to. She gave me one name.

“Do you have a phone number for him?” I asked. She said she didn’t, but I could probably find his company online. I did a quick search and found it and called the number.

“My house is right up the hill from your lot. I can meet you in an hour. I’ll bring some plans with me.” said John, my future contractor. Our first conversation started on a warm early September afternoon with a tiny hint of aspen color change on the ridge across the valley from our lot. John rolled out a set of prints across the top of the sun-faded gray hood of his Dodge Ram. He told me that the prior owners (actually two owners past) had planned to build a house here but ultimately decided to buy one just up the hill already built. These plans were “ready to go.”



John, our contractor, stands in the future kitchen with Terry while Brenda and Andy imagine the view from the living room.

Boy, that had an easy button written all over it. Holding the deeply curled blueprint open with one hand, I traced around the outline of the walls with my finger. It was very straightforward, completely practical, and a bit unimaginative. John explained that he had built several versions of this house, including his. I would later tour his home and another similar one he had built. They were well thought out, but I had something different in mind.

Over the years, I've been in builder-designed homes and have observed that they are a compilation of mundane layouts punctuated by a few “wow” factors. My friend Tim was both the designer and contractor of his home in the Vail Valley. It was a 7,000-square-foot beauty that was the exception of a builder designing a well-thought-out home. The one design quirk was the hot tub. Tim cut down a huge concrete culvert, turned it on end, poured a floor, and plumbed a drain and jets. Unlike Tim, most builders tend to be quirky and not cohesive in their design ideas.



Designed and built (from excavation to finish) by its builder-owner, this house sold for 4 million dollars.

Builders often sell by offering “ready to go” plans or early sketches to excite you. They may sweeten the deal by touting how much you’ll save in architectural fees. In no time, they’ve got you behind the wheel in the showroom, inhaling all the petrochemical aphrodisiac perfume of a new car and ready to drive it off the lot. This is a dangerous tipping point for many of us as the combination of adding a romantic accelerant to our nascent dream creates a false sense of confidence that it’ll be an easy project. So easy! So affordable! Let’s go! Uh oh. It’s time to tap the brakes.

The saying, “When you’re a hammer, every solution is a nail,” couldn’t be more appropriate. A builder-driven design can lead to a dull and unimaginative result. Usually, the owners are happy with the final product, but had they seen what might have been possible, they may have been disappointed that they got a thin burger instead of a fine steak.

Returning to the truck hood blueprints, by the time I rolled the second sheet of the blueprint out, I had concluded that while these

plans were nothing like what I envisioned, they did speak to the competence of the guy I had now spent thirty minutes talking to. I looked over the hood and said, “John, I’m looking for a partner.”

John was a fit man in his early 70s, looking lanky in cowboy boots and jeans and topped by a well-worn Stetson. His language had confidence and polish that hinted at a past career outside of construction. I would come to learn over the two years that we worked together that he started as a stockbroker, then developed limited-service hotels, and then, post-divorce, pivoted to small custom home building.

There was just a tiny hint of irascibility that flashed for a moment or two as he came from the assumption that I was a newbie to the homebuilding process. I was. No, I never had the experience of building a house from scratch, but I had some deep experiences in home remodels and additions. The “partner” word perplexed him, but like all good salespeople, he sensed when to pull back but keep the fish on the line. “Well, Don, we can look at those if you’ve got some specific ideas.” John didn’t fully understand my meaning that day; two years later, he did.

Standing at nearly 10,000 feet in elevation in the warm Rocky Mountain sun, I wondered how much longer my SPF 30 sunscreen would hold up. Even though we were on our first date, I wanted to test if there would be a second one. “John, I’ve been looking at an Oregon contemporary manufactured home company. If I went that route, could you help me with that?”

There was a short but noticeable pause before he answered, “Sure, I haven’t done one before, but I’d be open to it.”

At that moment, I felt like I had found my guy. Of course, there would be much further discussion, tours and conversations with past clients, and even a trip to Nebraska to visit a home manufacturing plant. Still, I sensed competency and flexibility in that first meeting.

And here we are at the tricky part. Choosing a builder-contractor is entering into a personal and financial relationship that lasts one to several years. It’s a lot like dating, where you’re reading all the verbal and non-verbal cues and flipping up and down your criteria list of

likes and dislikes. But it's different in one significant way. You're the one with the checkbook; the person across from you wants you to get your pen out and use it. I know it sounds pretty crass to put it in that light. Perhaps more charitably, I could say you want something and are looking for someone to help you get it. While overused, the phrase "win-win" pretty well sums it up.

Even though you're looking for a partnership, this isn't going to be a marriage of equals. It's a client-servant role, and it's up to you as the client to find that balance between push and pull.

While my mountain house building experience was a partnership, if you bring in an architect and engage them throughout the construction process, you'll be in a *menage a trois* relationship. You may be first among equals, but you may also be the tie-breaker or mediator.

### **WHAT CONTRACTORS LOOK FOR IN THEIR CLIENTS**

- Financially ready. Pay quickly and are sufficiently capitalized to finish the project.
- Responsive. For timely input and decisions.
- Thoughtful. Take time to understand explanations of different processes.
- Decisive. Make their minds up quickly, stick to conclusions, and avoid last-minute changes.

### **WHAT OWNERS LOOK FOR IN THEIR CONTRACTORS**

- Honesty. Both in financial dealings and advice.
- Communication. On construction issues, prices, and timeline.
- Experience. Guiding through the process, quick to adapt to challenges and changes.
- Commitment. Focus on quality of materials and workmanship.
- Dependability. Showing up when they say and following up on requests.
- Accountable. Full transparency of billing, products and sub-contractors.

## **HOW TO FIND A GENERAL CONTRACTOR/HOMEBUILDER**

Your search may take you down different paths depending on where you live or where you plan to build. While it's easy to surface leads in a metropolitan area, it may require more legwork in rural locations.

There's nothing like an internet search to start with. Like a good journalist who wants to get two sources to verify, it's a positive indicator when someone mentions a name or company you've found on the net. Beyond a standard search, you may discover referrals on social media sites (Nextdoor is good), chamber of commerce, or trade group listings.

Talk to a Realtor. This can be especially helpful in rural areas. Realtors usually know of local builders or can connect you with someone who does.

A local bank lender probably knows several homebuilders in small towns or rural areas (especially resort areas). Local chambers often have listings of members. Ask the manager of the hardware store or building supply company in the area for leads.

Talk to a specialty distributor (lumber, electrical, plumbing, etc.) and ask if they could recommend a general contractor they work with.

If a recent custom home has been built in the area, seek out neighbors or even knock on the door of a home you like to ask who built it.

## **CONTRACTS AND AGREEMENTS**

I have bought, sold, and leased a couple dozen properties over the decades, and with each transaction, the volume of paperwork has grown larger and larger. In comparison, all my contractor/builder relationships have been handshake deals.

I vaguely remember our mountain house GC handing me a one-page contract document at the beginning of the process, where he asked for a minimal deposit for his time to cover the preliminary planning work. Beyond that, nothing was more specific about how both parties would operate. As much as anything, I think having me



sign a simple agreement with a modest deposit was our GC's way of testing if I was a tire kicker or a serious customer.

If you're taking out a construction loan, the lender may ask you for an estimate and a contract or agreement with your builder. It's easy to find many boilerplate contracts online. Unless you've selected a large homebuilding firm, the odds are that your contractor will offer you a short and loose agreement, or even nothing at all.

You may find a real estate attorney who can draft a contract. I spent six figures on contractual legal work in my business career. These documents try to pre-suppose an endless list of what can go wrong and draw bright lines around remedies. But don't think that contracts are bulletproof and that justice is fair or swift.

Contracts do two things. They define expectations (services and deliverables) and set forth remedies if unmet. While there is ritual and reason behind legally drafted contracts, I'm not a lawyer, you're probably not one, and I'm sure your future contractor isn't one either. That's why working up a memorandum of understanding (MOU) or simply calling it an agreement may be more beneficial than stitching a fine needlepoint safety net of clauses and sub-paragraphs.

An MOU can contain the following:

- A good description of the deliverable(s)
- Process for billing and payments
- Key milestone dates
- Insurance responsibilities
- Financial incentives or penalties

You and your contractor are entering a relationship, and a simple MOU is your prenup. These five bullets are merely suggestions. More importantly, they point the way for you to think about and talk about how you and your contractor will operate during the project. Like the detailed blueprints for your house, an MOU can clearly define the business relationship rules under which you'll be working.

You're committing to a lot of money and want to finish on time and minimize risk. Contracts don't do that. Good management and

communication do. It would be best if you had the tough conversation early. Consider asking typical job interview questions like, “Tell me about a problem you had with a client on a past house and how you solved it.”

You can reduce your financial exposure by keeping a close watch on expenses. Beyond developing an overall budget with your builder, sit down with him to create a simple monthly cash flow projection. In my case, I had created the budget and was managing all the cash, so I did this without the help of our contractor, but I have managed large and complex projects and was comfortable doing that.

Tradespeople turned contractors aren’t always the best businesspeople. Here’s an example of how it can go south. Let’s say your contractor asks for a deposit check for a drywall contractor. You write the check. In the meantime, your contractor has another house going and meets with an unexpected bill he needs to pay. Your deposit check is lumped in with funds required to cover the other job. Something about that project spins sideways with his other client, and now his cash flow is tight, and he’s holding off writing the deposit check for the drywaller on your project. He covers his tracks by saying, “The drywall company is backed up and won’t be able to get to you for at least another month.” At best, your project’s now running later than planned (with a cascade of schedule juggling). At worst, your contractor comes back to you glumly saying that “I screwed up.” Now, the two of you need to work something out where, hopefully, downrange, you equalize accounts. And at triple worst, your contractor stops taking your calls. Suddenly, you’re scrambling for a “plan b” replacement and looking for a lawyer.

Looking back, our project was well managed over nearly two years with few surprises. One incident stood out: the big shock on the price of lumber.

During the pandemic, lumber was available, but unlike many other building materials, its prices fluctuated, like soybean futures and gasoline prices. I remember picking up my cell with John speaking in a low “I just ran over your dog” kind of tone, “Don (long pause). This has never happened before. We just got all the framing lumber delivered to your house, and the bill came in \$40,000 more than we were expecting.” It wasn’t the worst business news I’ve ever gotten,

but it did require a deep breath. John continued, “The lumber market is just crazy now, and we don’t have any options. All I can offer is not to charge any markup on the material.” And that is what I would call a high-integrity moment.

Things can happen outside the umbrella of even the most finely crafted contract. It’s also stories like this that keep a custom builder from offering you a fixed-price contract.