CONTRACTOR CHEAT SHEET

12 COMMON MISTAKES INVESTORS MAKE WITH CONTRACTORS

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Do not decide to hire individual tradespeople, aka subcontractors, to do the work rather than hiring a contractor with a crew because you think it will save money. You or the project manager end up trying to manage too many people and not saving money.

Make sure you hire contractors that have their own crews so that you are only managing one person. It is not difficult to find contractors with good crews at rates comparable to subcontractors, if you follow the pre-screening process outlined in this document. It takes some extra time, but it will save you thousands of dollars.

Do not find contractors from a friend's recommendation, being first in the directory, first on Angie's List, etc. Do not reach out to contractors with nice new trucks, expensive toolboxes, etc. They charge more than you should pay, and they don't need the work.

Instead, search Craigslist for contractors, drive neighborhoods where construction is going on, and be on the lookout for signs on trucks, especially in parking lots of places you visit. It's important to find the right balance of skill for a reasonable price.

Do not hire a potential contractor, agree to meet them at the property, or send them to the property to bid your job. Phone interviews come first.

The first step is to pre-screen them over the phone. During this call you explain that you are a rehabber, that you will have plenty of repeat business, and that you are looking to find someone who can work with you on pricing, to provide wholesale pricing. You want the contractor to make money, but you do not want to pay retail prices due to volume.

Agreements on meeting deadlines, budgets, and quality expectations come next, but many contractors will eliminate themselves with the pricing conversation, so do that first.

After expectations regarding pricing, deadlines, budgets, and quality are agreed, you want to visit two of their current jobs. The first visit is an in-progress job to see if the progress projection matches what you see, if there are a reasonable number of workers working, if the job site is kept clean and free of clutter and trash, and/or if there are obvious safety issues. How they run that job is how they will run your job.

The second visit is to a completed job to find at least one mistake and see how the contractor responds to you raising this issue. If they blame anyone else and do not take accountability themselves for the mistake and assure you they will do what it takes to make things right on your job, keep looking.

Do not allow contractors to provide bulk bids instead of line-item bids. Bulk bids could be in the form of a single total, total materials and total labor, totals by room, etc. If it's not in writing, how do you know it's included?

Require your contractor to provide line-item bids for everything that will be done. It's the only way to know what was actually included in the bid when disputes come up later, which they will. If a contractor is not willing to do line-item bids, do not work with them.

On almost every job there are discussions for change orders, times where you want to add items to the initial bid and/or change the way it's being done. It's just a natural part of the business and another reason why line-item bids are critical. The process for how change orders are handled should be in your Contractor Agreement Addendum.

You or your project manager can walk the property with the contractor, each person with their own line-item sheet. This way you have your own sheet to compare against their bid and you can run your own numbers with your Rehab Estimator calculator.

Do not purchase materials for your rehab projects. There is no reason for you to spend your time doing this or to front the funds for materials.

You should not be running to Home Depot or Lowes to buy materials. Besides not being a good use of your time, that is the contractor's responsibility. It is important for you to know which SKU numbers you want for paints, light fixtures, etc., but the contractor should be including material purchases in their numbers based on the agreed-upon line item bid. And you can do a reasonableness test for materials based on your Rehab Estimator calculations.

Do not allow contractors to estimate too long a rehab period to complete the job. It does not make sense to incur extra costs for poor project management.

Although each market is slightly different, you should know your numbers for how long it takes to complete a cosmetic rehab vs a structural rehab. A typical cosmetic rehab (kitchen, baths, paint, flooring, roof, HVAC, windows, etc.) should take roughly 3-4 weeks to finish. A larger, structural type rehab could take 8-10 weeks. If you do not know your numbers, speak with several other professional contractors who have no financial incentives to get a better idea of reasonable job length in your area.

Do not pay contractors deposits and/or allow draws. Contractors will use those funds for other jobs and start out behind on your job.

The typical job starts with demolition work and a deposit should not be necessary for that. Prior to hiring the contractor, get agreement up front that you will pay each Friday for work completed during that week. That week's work must be invoiced no later than the previous Friday. You or your project manager can do site visits a couple of times per week to verify the work is being done. If you pay the contractor on Friday afternoons, the funds will usually not be withdrawn from your account until the next week. This way the contractor knows what he will be making this week and you know what you will be paying out.

Cash flow management is critically important, so you must control the money to the job.

Do not be afraid to speak up immediately when you see issues. Rehab problems only get worse the longer they're ignored.

You must stand your ground and speak up as soon as possible so that the issues can be fixed before it's too late and before it's too expensive to do so. If you're not sure, ask other contractors with no financial interest for their opinion or check YouTube for answers. You want to make sure your job is being done right when it comes to quality and safety.

Do not fail to maintain your position of authority and thereby hand your power over to the contractor by doing so. You're hiring the contractor to do your job the way you want it done at an agreed price.

You must hold the contractor accountable to make sure you get the quality product for which the contractor was hired. If you don't, you're going to end up over budget, over timeline, and with a lesser quality product. This means having the hard conversations and even terminating the relationship, if necessary. If the relationship and/or project is slowly "bleeding" because it's easier to work with them than replace them, step up and replace them so you can get back on track faster.

Do not think you can "set it and forget it" in regard to your project, even with a trusted contractor. Create the process of consistently checking on the job.

To properly manage the job, you must have multiple site visits each week to the job. Do not think that once per week or even near the end of the job is sufficient. Even with a full-time job you can go by in the evenings to monitor progress. This is another important step in holding your contractor accountable for meeting all expectations.

Do not hire a new-relationship contractor to do more than one job at a time. New hires must prove themselves trustworthy first.

It's important that you know a contractor is going to keep their word, show up when they say, meet timelines, meet budget, and provide quality work on several jobs before you consider giving them multiple projects at once. Even then make sure there is at least a few days in between each individual job while they are in the "trial" period. After you're comfortable that the contractor is trustworthy, it's okay to give them multiple jobs at once, but make sure you stagger the start dates by at least a week or so. Regardless of how good they seem to be, do not give them more than 3-4 jobs that overlap or you're setting them up for failure.

Do not pay contractors the final payment as soon as the job is completed. Set this expectation up front so there are no payment demands upon completion.

Set the expectation up front that you are always a week or so behind the completed work. Consider withholding 10% of the project funds for five business days to allow time for final inspections and your own scheduling, so that you're not rushing over to a job the day it's done just so the contractor can get their check. By withholding final payment, you have more leverage for final punch list items that may not have been completed to standard or that were missed completely.

If you follow these above steps to find, hire, manage, and pay your contractors, you will save yourself and your project manager many hours of frustration and headaches, and you will save your business many thousands of dollars. Some of these steps are handled in your initial and ongoing relationship and conversations with the contractor and some steps should be addressed in your Contractor Agreement Addendum.