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B U I L D E R S

**How to Choose the
Right Contractor**

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We understand that selecting a contractor can be a difficult process. It is also one of the most important steps in ensuring your project ultimately meets or exceeds your expectations and is completed on time and within budget. To assist you in making this important decision, this quick summary is intended to provide an overview of some of the more important points you should consider.

The Value of Working as a Team: Owner/Architect/Builder

In our more than forty years of experience, we have learned that the most successful projects are the result of working closely as a team with the owner and the architect or designer. This involves collaboration starting at an early point in the design phase, working together to develop the project's detailed plans long before building actually begins.

As preliminary designs are developed, the builder should be able to provide projected costs early on so that changes can be made, if necessary, to stay within budget. In addition, "value engineering" options should be provided by the builder showing how various costs may be reduced without altering the overall vision of the project. The builder should be willing to provide continuous estimates throughout the project development process allowing the plans to be fine tuned to the satisfaction of the owner, the architect and the builder.

Working together as a team allows for the development of a trusting relationship and it allows the owner to relax and enjoy the process. In our experience, it also provides for the highest quality end product for the investment made and the greatest customer satisfaction.

The Value of Project Management

It is critical that a builder assign an experienced individual to oversee all aspects of your project. Custom work requires the proper management of scheduling, cost control, purchasing and subcontracting. Multiple bids should be obtained for each cost item to ensure you get the most value for your significant investment. Continual value engineering should be provided throughout the building process with suggested changes, where appropriate, to provide more value. Project management is also necessary for clear, accurate and transparent cost tracking, record keeping and billing. Continuous attention to the smallest of details is required to minimize errors and avoid surprises.

The Value of Onsite Supervision

Your builder should assign an experienced superintendent to provide onsite supervision of all aspects of construction on a daily basis. This individual should be capable of working in a dual role, when appropriate, also performing construction work when supervisory duties are not required. This individual plays a key role in receiving shipments and inspecting them to ensure quality and accuracy. Subcontractors need to be directed and the quality of their work needs to be checked and confirmed. Construction layouts need to be checked as framing progresses to ensure accurate assembly. This process has to continue as mechanical and electrical systems are installed, finishes are performed and final detailing is completed.

The Value of In-House Field Personnel

Does your contractor have experienced field personnel that are employed in-house? This provides a great advantage in controlling quality, costs and scheduling. The unique skill set of each in-house team member will be well known to the contractor allowing him to assign the best individual to each task. In-house personnel can also be reassigned to different projects more quickly to avoid delays. Of course, subcontractors will also be utilized, but having a strong in-house team provides flexibility as well as versatility.

Contract Types

There are typically three different types of contracts that are used in home building. Each has advantages and disadvantages depending on the circumstances in each case, so it is important for the owner to understand the differences. The three types are the fixed price contract, the cost plus contract and the cost plus with a guaranteed maximum price contract. Your contractor should be equally willing to work under any of these contract types. For all three types of contracts, be sure to discuss “allowances” in detail when selecting a contractor. When comparing quotes from multiple contractors, make sure that they all use the same assumptions and costs for all allowances so that their estimates can be fairly compared.

The Fixed Price Contract

The fixed price contract sets a predefined total cost for the project. The key advantage to the owner is that the total cost is known up front. This may help in obtaining a loan, if necessary. However, there are some disadvantages as well. In order for the builder to be able to agree to a fixed price, very detailed estimates need to be calculated. Therefore, all of the choices for building materials, cabinets, flooring, counter tops, fixtures and lighting for example, must be made up front. If the specific choices cannot be made by the owner up front then the builder must include allowances which include assumptions of the costs of what the owner will

eventually select. If the owner later chooses more expensive or less expensive options, a Change Order is issued to account for the increase or decrease in cost. Also, the fixed price contract shifts most of the risk to the builder so the builder may have to increase the profit margin to account for any potential estimating errors and construction contingencies.

The Cost Plus Contract

The cost plus contract pays the builder an agreed upon percentage of the associated costs of the project. Actual costs are tracked by the builder and reported to the owner on a monthly basis. Complete transparency is required in this process and actual invoices must be made available for review by the owner in order to maintain a relationship of complete trust. For complex or custom projects, this option provides the benefit of flexibility. Decisions about building materials, cabinets, flooring, counter tops, fixtures and lighting, for example, can be made later in the building process. Also, because there is less risk to the builder, the profit margins can be reduced.

Cost Plus with a Guaranteed Maximum Price Contract

The cost plus with a guaranteed maximum price contract can be thought of as a blend of the two previously described contract types. The builder is paid an agreed upon percentage of the associated cost of the project, however, there is an agreed upon maximum, not-to-exceed price. This contract type provides some of the benefits of each of the other two contract types. Decisions can be made by the owner later in the process while still being confident in knowing the total cost up front. However, the builder still must make assumptions and include allowances when providing the up front quote and therefore change orders are still possible, resulting in higher or lower than expected total costs for the owner. Because the risks are shared by the owner and the builder, this type of contract will usually result in a profit margin that is somewhere in the middle, between that of the fixed price and the cost plus contracts.

The Value of Accurate Cost Accounting and Reporting

One of the most overlooked areas when choosing the right contractor is cost accounting. Quality of workmanship, estimated costs and satisfied references are very important considerations that are most typically relied upon. It might not occur to the owner that how the builder accounts for costs is just as important to ensure that the project stays on time and on budget. Make sure that your builder tracks all costs using an accountant-approved accounting system. Up front estimates should be extremely detailed and listed on a line-by-line basis. Each month, actual costs incurred to date for each line item should be reported. Also, for each line item, the estimated remaining cost-to-complete for that item should be shown in the reports provided to the owner. In this way, monthly progress reports should show precise updates as to how the new projected costs compare to the initial estimates. Accuracy and timeliness are critical in order to avoid any unexpected cost overruns and to allow any necessary corrections to be made as early in the process as possible. The billing process should be integrated with the cost accounting and reporting system, allowing you to clearly understand and approve the bills you receive. Make sure to review your builder's cost accounting, reporting and billing processes before making your selection.

The Value of References

Perhaps the single most valuable input you can get in helping with the process of choosing the right contractor is to speak directly with previous customers of each contractor. After all, they've been through the whole process and should be most qualified to understand your concerns and your expectations. Ask your contractor for references of past customers who have completed projects comparable to yours. In addition to their overall satisfaction level, ask them about all of the topics listed in this document.

10 Red Flags

1. The contractor requires a large initial down payment or deposit prior to commencement of work.
2. There is no written contract or a poorly written contract.
3. The stated price is too good to be true and is significantly lower than other bids received.
4. There is an unclear work history.
5. The contractor will not provide a complete estimate.
6. High pressure sales tactics are applied.
7. The contractor cannot provide examples of progress reports that clearly show the costs incurred to date and the expected remaining costs to complete a project.
8. No references are furnished or they are unable to be verified.
9. The contractor cannot provide certificates of insurance for general liability or workers compensation.
10. The contractor offers a lump sum or a vague general estimate with little detail.

Finding and choosing the right custom home contractor for your project may be challenging at times, but you are embarking on what may be the biggest investment of your life, so you need to be confident in your decision. Do your homework and understand the process and you will reap the rewards of a beautiful home built to your specifications.

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