



# Hiring Your Contractor



# Preview Of What You Will Learn

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# Introduction

Hiring a good, dependable contractor is crucial and will have a significant effect on the outcome of your rehab project. Put a good contractor into a rehab project without a system in place, and you will have problems, but put a good contractor into a fantastic system and you will end up with a great contractor.

Locating and hiring quality contractors isn't as intimidating as it may seem – if you approach it systematically. You have to first cast your net wide. Get a comprehensive picture of contractors working in your area on rehab projects. Then narrow it down by talking to supply houses, real estate investing groups, other contractors, and online research. Narrow your list down even further by pre-screening contractors to make sure that they will fit into your system and follow your standards. After that, getting contractors to bid a project and selecting the most qualified one is easy!

In this system, we will show you where to start your search, what questions to ask, and what information to provide to make sure you are hiring the best possible contractor for your rehab job.



## ***HIRING YOUR CONTRACTOR***

### ***Action Items***

- Find an initial pool of quality contractors you think you might want to work with.
- Pre-screen each contractor to confirm whether or not he or she will be able to provide a high-quality finished product.
- Invite all qualified contractors to bid on your project.
- Evaluate bids based on completeness, price, and professionalism.
- Award the bid to the most qualified contractor.
- Walk through the project with the selected contractor.
- Execute the Six Critical Documents.
- Create an individual property folder to house all documents generated during the project.



# Finding Quality Contractors

The success of your rehabs will depend on two things: having a good, solid system in place, and finding a quality contractor to work within that system. Finding a quality contractor takes a little more effort than just looking in the Yellow Pages. You're going to need to get out into the contractors' world – see them in their natural habitat – to form an accurate evaluation of who you might want to invite into your system. We've listed some of our favorite sources for finding good potential contractors below:

- *Websites*
- *Supply Houses*
- *Local Building Department*
- *Job Sites*
- *Real Estate Investment Associations*
- *Contractor Referrals*

## **Websites**

There are several websites with contractor databases that you can search. We have chosen four representative websites that you can use either to start your search or to get more information on contractors you have found through the other methods listed above. All of the sites require that you register to be able to search for contractors. Angie's List, however, is the only site of the four listed that charges to use its services. The charge is an annual fee and varies based on the area you are searching. Bid Clerk works a little differently from the other three sites, acting more like a marketplace where you as the owner can post a job for contractors to bid on.



### **Helpful Tip!**

*Here are a few helpful websites where you can find contractors to bid on your jobs:*

[www.thebluebook.com](http://www.thebluebook.com)  
[www.angieslist.com](http://www.angieslist.com)

[www.homeadvisor.com](http://www.homeadvisor.com)  
[www.bidclerk.com](http://www.bidclerk.com)

## **Supply Houses**

Most supply houses are familiar with their regular customers. They know who pays their bills on time, and who hasn't been in for a while. They know the customers who are easy to deal with and those who cause problems. Aside from asking at the pro desk, you may also be able to strike up conversations with contractors who are in buying supplies. Whether you're at a large warehouse such as Home Depot or Lowe's or at a more local or specialized supply house, look for contractors who are in early in the morning getting their business taken care of first thing. This indicates organization and eagerness to work.

## ***Building Department***

Your local building department sees a lot of contractors, and as such can be a great resource if handled correctly. Finding contractors through the building department helps ensure that you are dealing with contractors who are familiar with the permitting process and actually pull permits, do quality work, and know the local inspectors.

Since the building department is a municipal department, they won't be able to show preference for one contractor over another. If you simply go in and ask them to recommend a contractor, they'll tell you that they can't do that. If, however, you go in, introduce yourself, and tell them that you are trying to find local contractors to work on your projects, that gives them an opening to share the contractors they work with on a regular basis without showing prejudice.



## ***Job Sites***

Look around your area for contractors doing renovation projects. Stop by and introduce yourself, and be ready with your elevator pitch. Visiting a contractor's jobsite lets you learn a lot about that contractor without even exchanging words. Look at the organization of the work site, and the workers' attitude toward the work. If the contractor is there, you have an opportunity to watch him or her in action, not just on best behavior. Don't be shy about asking the property owners if they are happy with the work the contractor is doing; good or bad, you'll definitely get an opinion.

## ***Real Estate Investment Associations (REIAs)***

Don't forget that networking is an extremely useful tool when it comes to finding a contractor who specializes in rehabs. Make sure that you make contact with your local REIAs and talk to members about contractors working in the area. Of course, since you are potentially dealing with other rehabbers, they might not be willing to share their particular contractor for fear of him not having time for their projects. In that case, simply ask if their contractor can recommend a different contractor who isn't quite so busy.

## ***Contractor Referrals***

Other contractors are a great source for referrals. Once you find one you like, ask him which contractors and trades he likes working with. Contractors who do the same quality of work tend to stick together.

### **What do We Mean by *Quality Contractor*?**

Essentially, a quality contractor is a person who is professional, competent, licensed, and insured who has the skills and inclination to work within your system to do the best and most efficient job possible.

# Contractor Meeting & Pre-Screening

When you have found a contractor whom you think will work well in your system, it is time to do a pre-screening interview. This will help determine whether your initial impression was accurate and make sure that you are finding a contractor who will respect you and the job. The contractor will also be interviewing you, so you need to sell him on why you are great to work with and how a long-term partnership can benefit you both.

There are certain criteria that you need to find in a contractor to make sure the experience will be a positive one. Any reputable contractor will be willing to answer these questions and will probably even be expecting them.

- 1. How many years has he been on the job?** Everybody has to start somewhere, but for successful rehab projects, you want to find a contractor who has been in business for a while. Look for a minimum of three years of trade experience; five or more years is even better.
- 2. Does he own the proper tools for the job?** An established contractor should own all of the tools necessary to do the job you are hiring him for. A contractor who can't do work at your project because the equipment he needs is not available is not the contractor you need.
- 3. How many workers are on his crew and how many jobs are they currently working on?** You want to make sure that your potential contractor isn't stretched too thin. If the roofing contractor you are interviewing has three employees and three roofing jobs at the same time, you might want to reconsider.
- 4. Is he licensed and permitted?** If a contractor is not licensed and isn't willing to get the proper permits, you don't want to work with him. Working with a licensed contractor who doesn't want to cut corners is another layer of protection for you if there are any problems with the project.
- 5. Does he carry liability insurance and provide workers compensation insurance?** Again, working with a contractor who doesn't have insurance is a liability for you. Any damage or injuries that happen on the job site will be your problem if you are unwise enough to work with an uninsured contractor.



6. **Does he use subcontractors?** It is perfectly normal for your contractor to subcontract work in certain disciplines. However, he needs to be upfront about this and you have the right to approve or disapprove of any contractor that will be working on your property. Quality attracts quality, and a good contractor will not want to risk his reputation by using poor quality subs, but you will still want to look closely at any subcontractors before your rehab project starts.
7. **Has he ever declared bankruptcy?** You want a contractor who is financially stable enough to be able to front costs for materials and isn't rushing to make the first payment milestone.
8. **Can he provide you with referrals from previous clients or provide you access to previous jobs he has completed for reference?** Obviously a contractor isn't going to give you references

GOOD CONTRACTOR	BAD CONTRACTOR
<ul style="list-style-type: none"> <li>• <b>Experience</b> – at least three to five years</li> <li>• <b>Equipment</b> – the contractor you hire should own his equipment, not rent it</li> <li>• <b>Employees</b> – a good balance of crew to number of projects</li> <li>• <b>Licensure</b> - only work with licensed contractors</li> <li>• <b>Insurance</b> – both liability insurance and workers compensation</li> <li>• <b>Use of Subcontractors</b> – this needs to be disclosed upfront</li> <li>• <b>Financial Stability</b> – no previous bankruptcies</li> <li>• <b>Referrals</b> – ask for at least three referrals from previous clients</li> <li>• <b>Sample Projects</b> – the contractor should be willing to let you see his work</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Desperate</b> – constantly calling you for work</li> <li>• <b>Unprofessional</b> – a disorganized job site, truck, or personal appearance may indicate a less-than-professional approach</li> <li>• <b>Unlicensed</b> – stuttering or beating around the bush regarding licensing or insurance is a danger signal</li> <li>• <b>Uncooperative</b> – not willing to sign your agreements or not getting back to you in a timely manner</li> <li>• <b>Financially Risky</b> – wanting money up front before any work has been done</li> <li>• <b>Unverifiable</b> – unwilling or unable to provide references</li> </ul>

## Developing a Powerful Pitch

The pre-screening meeting is your opportunity to convince a contractor that you will be a serious, repeat, profitable client. You need to address the things that motivate your contractor and how your company can provide them. Contractors are in the business to make money, and first and foremost they are going to want to know how you can help them do that.

In order to get their attention, you will need to be engaging and sell them on being interested about you and your opportunity. Develop and practice a one-minute introductory pitch that covers these main points:

- ***I am not a retail client.*** Start by sharing that you are not Sally the homeowner doing her one-time kitchen remodel. This lets a contractor know that you will not waste time making decisions. This also lets a contractor know that you don't expect retail prices. You expect wholesale prices.
- ***I work with a network of investors.*** Explain how you can keep a contractor busy because you work with a network of investors and will have a steady stream of projects for the right contractor. No need to worry about where the next job is coming from!
- ***I use a proven system with a pre-determined Scope of Work.*** Explain to contractors how your system for completing rehabs will free them up to do what they do best and keep them from having to do their job and yours. Share the fact that you have a detailed scope of work itemized down to the materials and item numbers, so they can focus on their craft.
- ***I LOVE to pay contractors when work is completed.*** Remind potential contractors that you do not make any money or gain any benefit until the job is complete, so you have no issue with paying promptly and willingly for completed work. Deliver this line just as we have shared it with you. Most contractors are not used to hearing the two words "love" and "pay" in the same sentence from clients, so this is a huge motivator for them to work with you.
- ***Ask, "Would you like to make money in my system?"*** Leave the contractor with an enrolling question giving him no choice but to say yes. This will leave you in a positive space to share the next steps on how he can move forward with you.

## ***Characteristics of the Ideal Investor***

- Professional
- Organized
- Systematic
- Profitable
- Able to provide recurring work
- Able to help a contractor grow his business
- Respectful
- Pays willingly and on time
- Communicates
- Lets the contractor do his job

Talk about your company principals and your zero tolerance policy for poor quality work and lack of professionalism. Let the contractors know that you believe that each project is unique and important. Quality is a function of attitude, and not of budget – good buildings come from good contractors. Make sure you emphasize that listening and communication are very important to the success of the project. They help foster collaboration among all parties involved.

The following outline lays out how we like to introduce ourselves to contractors at a pre-screening meeting, whether in-person or over the phone. Knowing what you are going to say and not just winging it conveys your professionalism. You want to state your rules up front and reassure the contractor that your expectations will be clear and there will be no surprises on their end.

## ***Sample Introductory Contractor Meeting Outline***

1. Introduction to our company (3 minutes)
  - a. Description of our company
    - i. Residential redevelopment house buying company
    - ii. Purchased 70 homes last year and want to purchase 100 in 2006
    - iii. Rehab costs range from \$5,000 to \$250,000
    - iv. Average renovation cost is \$30,000
  - b. Company Goals
    - i. #1 goal is to increase revenue and run our company as efficiently as possible to increase profit margins
    - ii. Renovate and sell a quality product to the marketplace
    - iii. Increase homeownership opportunities in the community
    - iv. Turn around neighborhoods that we invest in
    - v. Help affiliated businesses like you succeed
2. Benefits for their company (5 minutes)
  - a. Consistent work for head contractor
    - i. Allows them to keep best tradesmen on their crew
    - ii. Little to no marketing expenses for owner of company
    - iii. Takes the risk and uneasiness out of the business
    - iv. Increase income for owner of construction company
  - b. Business building assistance
    - i. Regular business building meetings
      1. Fabio & Fabio have gone from 2 to 8 members, from 1 to 5 jobs at a time, and tripled their income
    - ii. Help them set up their company correctly and avoid liability
    - iii. Help them grow their company correctly
      1. Helped Fabio with bookkeeping
3. Benefits of working with CT Homes, LLC as a developer (3 minutes)
  - a. Goal is to make the construction as hassle free as possible
    - i. We do that with constant communication
      1. Without it, projects are delayed
    - ii. Continually improving rehab systems
      1. We want to make your business more efficient and increase profit margins because it will do the same for us
    - iii. McDonaldize the rehab business
      1. Scope of work is detailed

2. Takes the guess work out of construction
4. Pictures and Scope of Work for past jobs (3 minutes)
  - a. Picture examples of 4 of our past jobs
  - b. Scope of Work of 4 jobs, without prices
  - c. Timeline of work of 4 jobs
5. How we expect to conduct business (5 minutes)
  - a. Scope of work completed
  - b. Bids obtained off scope of work
  - c. Walk through with contractor
  - d. Material selection and ordering
  - e. Independent contractor agreement signed
    - i. Payment scheduled signed
    - ii. Schedule of work signed
  - f. W9, proof of insurance, proof of workers comp provided
  - g. Building permits obtained
  - h. Work schedule is monitored
  - i. How change orders are handled
  - j. Punch list is signed and finished
  - k. Waiver of lien is signed
6. How our company handles problems (5 minutes)
  - a. Consistent communication solves 90% of problems
    - i. We could have avoided many past problems if the contractor had just picked up the phone
  - b. Quality of work problems
    - i. Utmost importance to us
      1. Your reputation is also on the line
      2. We have had contractors who skimp and are short term thinkers
    - ii. Problem solved by contractor taking care of the details
  - c. Job scheduling
    - i. We have someone from the office check up on the job daily to make sure we are on schedule
    - ii. If contractor does not show up when scheduled it better be communicated
      1. If not there is a warning, then we fire them from the job
  - d. Handling of subs
    - i. Head general contractor handles subs
    - ii. Outline of his responsibilities
7. Next few jobs to give CT Homes bids on (3 minutes)
  - a. Scope of work provided
  - b. Timeline for acceptance of bids

# The Bidding Process

Once your pre-screening has helped you identify several potential quality contractors, it is time to put your project out to bid. Make several copies of the bid packet and leave them at the project site. At a minimum, the bid packet should include your **Scope of Work**, a **Quote Itemization Form**, and a **Contractor Application**. The Quote Itemization Form tells the contractor how you want to see items broken out in the bids. If each contractor uses a different format, it will be difficult for you to confirm that all items are covered and to compare one bid with another. The contractor will also need to provide a completed Contractor Application, proof of insurance, letters of reference, etc. along with the bid.

## **Getting Bids**

Put a lockbox on the door and contact your preferred contractors to let them know the property address and the lockbox code. Try to have between three to five contractors provide bids on the job. Tell them that bid packets are available at the site and when the bids are due. Make sure that contractors know that bids received after the due date and time will not be accepted.

It is important to have a pre-prepared bid packet at the site for several reasons. First, you want to make sure that the contractor actually visits the job site before bidding on the project. Second, you want all of the bids to contain the same information, hence the Scope of Work and the Quote Itemization Form. Third, you want to make sure that no one can accuse you of being unfair. If each contractor gets the same information via the bid packet, no one can claim preferential treatment. Fourth, you want to see how well a potential contractor can follow directions. If the contractor can't even comply with your Bidding Instructions, he definitely won't be able to follow the Scope of Work.

You may also want to provide a Contractor Credibility packet at the site even though you have already introduced yourself and your company to contractors during the pre-screening meetings. The Contractor Credibility packet provides essentially the same information about you and your company as you provided in the pre-screening meeting.



# Pre-Construction

## **Evaluating Bids**

It is very helpful to have a system in place for evaluating contractor bids. Make a list of essential characteristics that each bid will need to have. Put the list into a matrix and assign points to each item. You can find a sample Bid Evaluation Matrix in the [7 Stages of a Rehab](#) system, available on the Mastery site. Check off and score each item as you evaluate the bids. At a minimum, you want to make sure that the contractor followed your bidding instructions, the contractor's quantities are reasonably close to what you estimated, the contractor neither added nor subtracted items from the quote itemization form without explanation, license and insurance information is up to date, and professional references have been provided. Narrow the bids down to your top two choices and contact their references. Once you have verified the references, make your decision and notify all bidders of their status.



As you are establishing yourself as a rehabber, it may take more than one rehab project to find a contractor that is a good match. Maintaining good relationships with contractors who were unsuccessful on one project will ensure that you still have contractors who are willing to bid your next project.

You are so close to getting started, you can taste it! Your last two steps in Hiring Your Contractor are meeting him or her at the job site for a final walkthrough and executing the Six Critical Documents. These documents constitute the legally binding agreement between you and the contractor and are covered in detail in our system, **Executing the Six Critical Documents**, also available on the Mastery site. To protect yourself, do not sign any documents with a contractor until you have closed on the property and do not start any work until the contractor has signed the documents.

You will want to discuss each document with the contractor before signing. Make sure that you go over your penalty clause with the contractor to create a level of seriousness and set standards for professionalism from the very beginning. The penalty clause states the consequences the contractor will face for not meeting the project schedule. There isn't a set standard for a penalty clause, but you want to keep a balance between a slap on the wrist that has no effect at all and a business-destroying unrealistic amount. The penalty amount should be set in line with the total project amount. A penalty of \$100/day for every day over schedule is a reasonable amount for the scale of most rehab projects.



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