

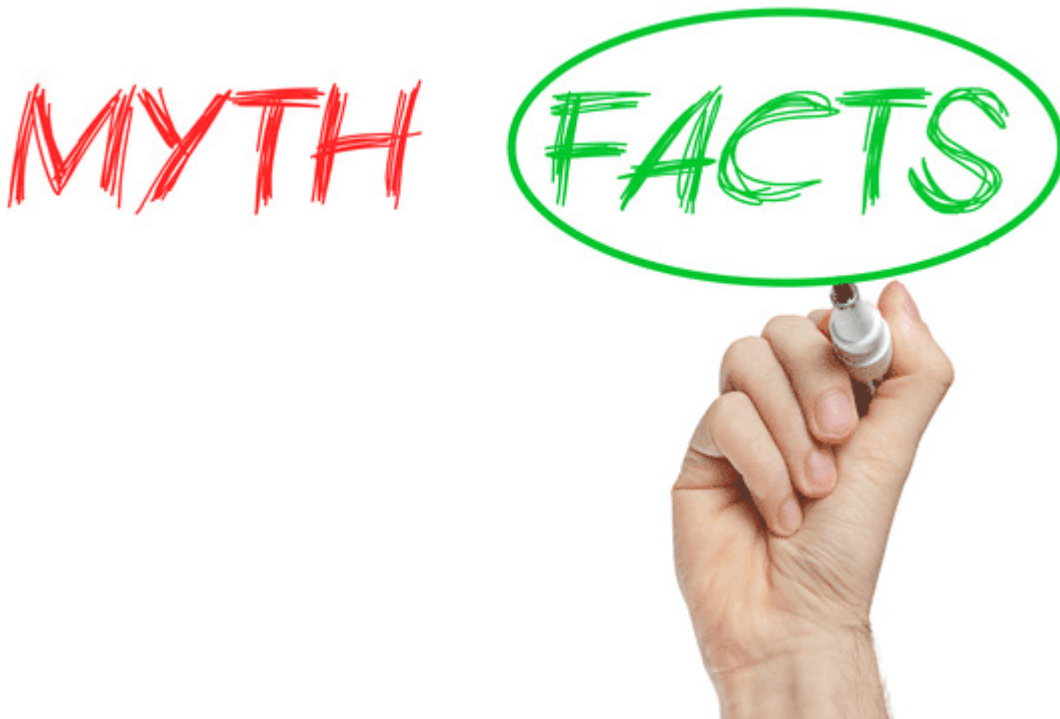
HIRING A CONTRACTOR: TRUTH VS. MYTHS

by Michael Stone

Last weekend our friend [Bob Youngs](#) showed us an article published in the June 2016 issue of *Consumer Reports*. Portions of the article are [available online](#), although the printed version is more detailed.

The article is written as advice before hiring a contractor, and some of the advice is spot-on:

- Bring your contractor into the project during the design phase (if working with an architect). "An experienced GC will help you head off things you can't afford before you pay for finished drawings."
- Get everything in writing.
- Changing your mind after the work is underway is the biggest mistake homeowners make, and it can be the costliest, too.
- Deal with your general contractor, not your subcontractors. "Engaging the subcontractors directly often creates conflict."



Unfortunately, there's a fair amount of advice that's just plain wrong. If you want to hire a contractor who is financially stable and will still be in business down the road, this is the advice to avoid, and why.

Wrong Advice: Always Negotiate

A contractor who knows how to price their work properly won't have room to negotiate. They've estimated the total cost of the project, then added on whatever they need to meet their overhead needs and make a reasonable profit. If they priced the job properly, [what's left to negotiate](#), unless you don't want them to make a reasonable profit?

You can ask, but a contractor who knows their business will tell you that they'll adjust the price if you adjust the scope of the work. I wouldn't trust a contractor who's willing to lower their price, because it means they didn't quote me a fair price in the first place. What else are they doing that's not trustworthy?

From the article: "Only 4 percent of the GCs in our survey said they are never willing to negotiate the price of a job." Interestingly, our experience is that only 4-6 percent of contractors are still in business after 10 years.

The article also stated that 30 percent of the contractors in their survey are very willing to negotiate. And 20 percent of the contractors in their survey lacked either a state license or the proper insurance. A contractor who is operating without the proper credentials will definitely be more willing to negotiate, but at what cost to you?

Wrong Advice: Use Online Services to Find a Contractor

If you want to find a contractor, do the same thing you do to find any other professional: use Google. The best contractors in your area will have a website that allows you to learn who they are and what they do, see some photos of their work, and then make contact.

You'll find contractors on Angie's List, HomeAdvisor and Porch, but they are seldom the best contractors in the area. They will be the contractors who either pay for the lead or pay to advertise. Some online services even charge the contractor a percentage of the sales price; guess who really pays that fee? Think of online services as another advertising outlet, not a source of quality contractors.

Wrong Advice: Request a Detailed Breakdown of Labor and Material Costs for Each Part of the Project

This isn't necessary if you're working with a Cost Plus contract (more on that later). It also isn't necessary when you're working with a fixed-price contract because you were given a firm, fixed price.

We've talked about [itemizing estimates](#) and [transparency](#) on our blog. It's a wasted exercise for the contractor and for the client. If you don't trust the contractor you're working with, or if you don't like the price they quoted you, don't hire them.

Wrong Advice: Include a Penalty Fee in the Contract if the Completion Date Isn't Met

This is only fair if you include a bonus if they finish before the completion date. I know the argument; they'll rush to finish the job quickly to collect the bonus. Guess what? They'll also rush to finish the job if it looks like they'll have to pay a penalty.

Go ahead and include a penalty as long as you include a bonus as well. Fair is fair.

Wrong Advice: Fixed Price and Cost Plus Contract Comparisons

A [related article](#) on the Consumer Reports website (included in the print version) discusses fixed-price and cost plus contracts. There is a warning that with fixed-price contracts, the contractor might cut corners to stay on budget if their costs are higher than estimated. Keep in mind that this is also a risk if you negotiated down the price of the job, and it won't happen at all if you hire a reputable contractor who knows how to price their work properly.

I strongly recommend against using a cost plus contract; that's covered at length [on our website](#). I disagree with the statement that "Most cost-plus contracts come with a guaranteed maximum price, or a ceiling on additional charges." If they did, there would be far fewer disagreements, but there would also be many jobs left unfinished when the maximum price is reached before the project is completed.

Estimates

The article neglected to tell you that you should expect to pay for an estimate on your project. It takes time to price a project, and many contractors are no longer willing to invest the time and trouble to compile an estimate for free. You'll still see "Free Estimates" here and there, but many contractors recognize that they are providing a service when they estimate your project and will ask you to pay for that service.

Pricing

I wrote the book on pricing jobs for the construction industry ([here](#) or [here](#)), so it was a surprise to read that [contractors charge 25 percent](#). Let me tell you that if they are only charging 25 percent, they won't be in business long. That's why so many construction businesses fail; they don't charge enough for their work. Every contractor needs to calculate their own markup based on their overhead and profit needs, but to survive, most need to use a markup of at least 1.5 and many general contractors doing remodeling charge a much higher markup. That means

they need to be adding at least 50 percent onto their estimated costs for a project. We explain [more on that here](#).

There are a lot of little tidbits in the article that I question. I'd like to know how the Consumer Reports National Research Center found the 300 general contractors that they interviewed, because I have a hard time believing that a random sampling of general contractors found 20% operating without either a state license or the proper insurance. The printed version of the article includes a graphic that states that one of the most common problems that lead to cost overruns in their survey is getting permits. Someone help me out: how can getting permits lead to a cost overrun?

Price should not be the top priority when choosing a contractor; if it is, you won't be dealing with the best contractors. Keep in mind that many of the contractor horror stories involve a contractor who disappears during a project. Other horror stories involve contractors who cut corners. The reason they disappear or cut corners is because they are broke and can't pay their bills. The reason they are broke is because they aren't charging enough for their work. In some cases, they needed your job to pay off bills from old jobs. That's the risk you take when you want a contractor with the lowest possible price.

For many homeowners, your home is your largest single investment. Hire a responsible, professional contractor you can trust, not a cheap one. They'll protect your investment and you'll sleep better.

"A long habit of not thinking a thing wrong, gives it a superficial appearance of being right." -- Thomas Paine

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