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How to Select a Builder & Builder's Guarantee

A comprehensive guide to help you make a wise decision in the selection of a builder for your new custom home. This guide explains what you should look for and questions you should ask.

Includes Builder's *Guarantee* form on back cover.

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How to Select a Builder

Selecting a builder is one of the most important decisions you will have to make in the home building process. If you make a wrong decision here then you could end up with a stressful building experience and a home that you don't really like. Furthermore, you could end up paying thousand of dollars more than you should and waiting much longer than you wanted to move into your new home. Many home owners have been taken by the smooth talking builder who promises them the world but then fails to deliver after having them locked into a deceptive contract. This booklet is for the purpose of helping you, the home owner, make the right decision in choosing a builder.

Here are some things you should consider in your decision.

Cost

How much your new home costs depends on several factors. The more complex or feature-rich your house is the more it will cost, no matter who builds it. Also, as the quality of materials and workmanship increases so will the cost. If you receive a price that is much lower than some others, you must ask yourself why.

There are a number of ways in which a builder can produce an abnormally low bid. Most of them are bad for the client.

Usually the low bidder will claim that they work more efficiently or that they have better prices from their trade partners than others. This is seldom the case and certainly could not legitimately account for more than a 5% reduction in price. Material costs are the same for any custom builder. Labor costs are also very close to the same if the labor is legal and the quality is equivalent. All builders have similar overhead costs such as insurance, vehicles, facilities and staff. However, some builders have a large office building, several office staff, all new vehicles and high marketing costs which raise their overhead costs considerably. These costs must be passed on to each homeowner and result in either a higher cost or a lower quality house. If you receive a low-ball bid from any builder then be sure that there is a reason that will likely be unpleasant for you.

One tactic that low-ball bidders use to make up the difference in cost is the unscrupulous use of Change Orders. Some builders will give you a price that doesn't take into consideration certain discrepancies or ambiguities in your plans. No house plan is perfect and some builders use these imperfections as an excuse to create Change Orders. Most discrepancies do not cost a builder more than the time it takes to clarify the plans with the architect or homeowner. However, some builders will charge you extra to build the house the way that you want it. To add insult to injury they will then very likely mark up your Change Order so that they actually profit from your misfortune. Be sure that your builder includes every detail that you want in his contract and be sure you understand his Change Order policy.

Another reason a builder might produce a low-ball bid is he is planning to short-change his trade contractors. Tradesmen who have legal employees and run their business legitimately can only cut quality if they want to cut their costs below their competitors. If a builder requires his trades to cut their cost in order to do your job then you can be sure they are cutting quality to do it. In the end the homeowner looses as the tradesmen do substandard work in order not to loose money. This substandard work is especially critical in the foundation and framing and can cause major and expensive problems long after the builder is gone.

Any bids that you receive should be close to the same amount. If one is abnormally low, watch out. Saving money and having a house with serious problems is not really a good deal.

Quality

Just as there is a different level of quality in a Yugo and a Rolls Royce, there is a different level of quality in custom homes. You can not count on the building inspector to make sure your home is well built either. Their primary concern is safety and their inspections are intended only to ensure that your house meets the code minimum. Code minimum will not even ensure that your home meets the quality of a tract house.

Unfortunately for the homeowner, shortcuts are often taken in areas where they cannot be easily seen. Many quality issues are not apparent until some years after the builder is finished. By that time it is usually too late to try and have the builder back to fix the problems.

If you are not on location during the building process, how can you protect yourself? You could hire an independent project manager to oversee the building process for you. You could also ask your builder to provide weekly written progress reports and/or photos of daily progress. For most builders you will not receive this service. If you do you will likely have to pay extra for it.

Ask for references from potential builders. Be sure to ask for a list of *all* clients in the area. Some builders will give you a list of carefully selected clients for references. Most clients will be happy to provide a reference for their builder unless they are unhappy with his work.

When speaking with a builder's reference be sure to ask pointed and specific questions. Ask how well they were kept up to date as their home progressed. Ask if their builder met their expectations for final price and time of completion. Be sure to ask them what they think about their builder's quality. If they are truly happy with their house they will likely invite you to come by and see it. One last question to ask is if the home building process was stress-free and enjoyable.

Contract Types

Typically, there are two types of contracts. Some builders use both and some use only one or the other.

Fixed Price

The first type is known as a Fixed-Price contract. With this contract, the builder gives you a bid for the total cost of your home once completed. There are typically allowances in a fixed price contract because some items have not been completely specified. Appliances, flooring, plumbing fixtures and light fixtures are typical allowance items. An ethical builder will provide accurate allowances so that you will have a realistic idea of what your home will cost in the end. Be sure to check the allowances if your bid seems unreasonably low. It could be that the allowances will not buy what you want in your home.

Some builders don't offer fixed price contracts because it is expensive for the builder, takes to much time or perhaps they are not capable of doing it. This type of builder is forcing the homeowner to take all of the risks as it relates to cost.

Some builders don't mind fixed-price contracts because Change Orders are a profit center for them. Changes always occur but you shouldn't be penalized for making a change so that you can have your home built to your satisfaction. Be sure your builder does not gouge you for Change Orders. Look for a builder that adds nothing to his actual cost for Change Orders.

Cost Plus

A second type of contract is a Cost-Plus contract. With this type of contract your builder agrees to build your home according to your specifications and you agree to pay him his actual cost plus some amount extra. This extra amount is to cover the builder's overhead expenses and profit. Most times this added amount is a percentage of the actual cost but sometimes it can be a fixed fee.

The Cost-Plus-Percentage contracts put the homeowner at great risk for cost overruns. This type of contract “rewards” the builder for spending more money and running the construction cost up. If the builder does not run his company or the job efficiently then he makes more money. If he makes mistakes and charges the homeowner to fix them, he makes more money. This is not an ideal situation for a homeowner from a budgeting standpoint.

As an alternative to a cost-plus-percentage contract a builder can offer to build your home on a cost-plus-fixed-fee contract. In this situation the builder has no incentive to run up the cost of the home. The builder's fee is set and he does not get paid extra for doing extra work. The disadvantage to this arrangement is if the builder does not provide a complete cost estimate up front from which to budget the job. With no budget cost can still creep upward if the homeowner and builder aren't careful. A cost-plus-fixed-fee contract with an upfront budget and time schedule for

completion is probably the most fair and economical method of building for both the homeowner and the builder.

Precision

If you are building a custom home you likely spent valuable time and resources on your house plans. Once you are ready to build you want a builder that will follow your architect's plans carefully. Some builders will “simplify” plans which usually ends up cutting out key features that make your home uniquely yours. Many builders have little respect for architects and think they know best how a house should be built. You don't want to hire a maverick builder who throws your plans away and builds it his own way. You want a builder who does his best to build exactly what is designed and who will work through any issues with you and the architect to make sure you get what you want.

Flexibility

When choosing a builder you should also determine how flexible they are during the building process. Some builder will not be bothered by any little concerns that you may have after the contract is signed. They just want to build your home as fast and easily as they can without any disruptions. While having a home built quickly is nice the time taken to complete will soon be forgotten if you did not get the home you wanted. Be sure that your builder is willing to work with you all during construction and listen to each of your concerns. In the end the builder should be happy to give you exactly what you want and make doing so as easy for you as possible.

Builder's Background

The construction industry attracts people from all walks of life. Getting a home builder's license is not overly difficult and, as a result, many builders don't have much experience in custom home building. This is not all bad, but keep in mind that building a nice custom home is not a trivial or uncomplicated task.

If a home builder actually has hands-on experience in home building he will know more about the building process than one who has simply passed a test. On the other hand a builder who has plenty of experience and little or no formal education is likely to be tied to the past. Technology has greatly improved the way that homes are built over the past twenty years and you don't want to miss out on proven home building improvements.

If your builder understands and has experience in many of the trades (plumbing, electrical, framing, concrete, carpentry, etc.) he will be able to monitor the work on your home much better and maintain a high level of quality control. Important details are sure to be overlooked by the inexperienced eye.

Builders who have hands-on experience or who have an architectural or engineering background are a big plus to a homeowner. Be sure to ask your builder about his background. Does he have any building or technical experience? You have hundreds of thousands of dollars at stake in your home and you want someone who will do it right and not miss important details.

Technology

In the past twenty or thirty years many new materials and techniques have been introduced to the home building industry. Be sure your builder stays abreast of the latest technologies and implements those that have proven benefits. You don't want a builder who goes for every fad that comes along. However, many new technologies will save you money both upfront and in the future, and provide a better home for you overall.

Communications

If you plan to be absent during much of the time that your home is being built, how will your builder keep in touch and keep you up to date? In 2010 that seems like a trivial question but be sure to ask.

Telephones are a good tool for quick and simple communication. However, telephones can be disruptive to both you and your builder and if cell phones are used it can be hard to get a signal some days. Be sure your builder is well connected with good cell phone service or a land line so that you can get in touch with him quickly if need be.

Email is an even better way to communicate than telephones. Email is instant, non-disruptive and allows you to better transfer information and ideas. Photos, documents and even videos can be quickly transmitted so that job progress is never held up for long. Email also provides a written trail so that there can be no mistake between you and the builder about what was said and when it was said.

Photos are another excellent way to document your home building project. Some homeowners will take photos themselves if they are on the job site. However, if you are going to be absent most of the time it would be good to have your builder do this for you. Some builders take photos daily and either email them or post them online for their customers to see. With these photo updates you don't have to wonder what is being done on your new home. You can see for yourself.

Another useful type of documentation is detailed photos of your homes structure and mechanical systems. Open wall photos are typically taken just before insulation and drywall are installed. If there is ever a problem you can go back to the photos and know exactly what is inside of every wall and ceiling without having to tear out drywall. If you were to ever do any remodeling these photos could prove invaluable to your designer and builder.

Be sure to hire a builder who will communicate via telephone and e-mail and keep you up to date. You don't want a builder who doesn't want you around when he is building or who is afraid to give you progress reports. When little problems are not caught early they become very big problems later. Don't let this happen to you. Insist on good communication and documentation from your builder.

Modern Building Techniques

One of the reasons to question builders who have been building homes for a long time is to determine if they still build homes the way they always have. If they do, they are not the builder you want. You want a builder who uses tried and true methods from the past but who also incorporates new materials and methods that make sense. You want a builder who constantly searches for better materials and methods and who isn't afraid to change for the better.

Every year improvements are made which can save the homeowner money or make his home more comfortable. Don't let your builder belittle new materials or building techniques. Which is more comfortable in a rain storm: a Model A Ford or a 2010 Mercedes? While not all new things are worthwhile they are certainly worth considering.

Efficiency

How quickly will your home be built? Will your builder give you a schedule for completion or simply jump in and hope for the best? Basically, there are two ways to decrease construction time. Only one is good for the homeowner. Ask your potential builder how they ensure your home will be built in a timely manner.

The first way to speed up production is to simply throw money at the project. You could pay incentives to workers to work extra hours or to work faster, or you could hire more people to get the job done quicker. None of these is good for the homeowner. You end up with higher costs and/or lower quality of work. Watch out though because these are good for a Cost-Plus-Percentage builder and they may do this to you.

The second, and preferred, way to speed up production is by proper planning and scheduling. With this method a plan is created before the job is started to determine what tasks need to be completed, how long it will take to complete them and when they need to be completed. Using advanced scheduling software you can interconnect each task so that every task is scheduled to happen at just the right time. In this manner your project has very little idle time but also doesn't have overlap and wasted efforts. With scheduling software you can locate any bottlenecks and determine what tasks are critically important to keeping your job on schedule.

An added benefit is that you can be told weeks or months in advance when a critical decision needs to be made such as hardware or paint selections. This gives you plenty of time to make the selection without risking holding up progress on your

new home. Ask your potential builder how he plans to schedule your project. If he can not give you scheduled dates when things will happen then you should look for another builder.

Warranty

What kind of warranty does your home builder have? Most builders warranty their work for a year or two. Some builders consider what should be warranty work as a profit center. Ask you builder about his warranty policy.

Be sure to look at the back cover of this booklet. If your builder will not sign this form, then maybe he isn't the right one for you. At least one builder (Willis Sinclair Homes) will sign this guarantee if they are contracted to build your home.

The Proposal

The contract or proposal that a potential builder offers you is indicative of the way that he will build your house. If his proposal is detailed and comprehensive, you can be sure your builder will be just as detailed on your home. If it is a few words and number written on a single sheet of letterhead then what can you expect in your home?

If your builder does not have a detailed proposal, that leaves a lot of questions to be answered during the building process. House plans are rarely specific enough to provide a builder with everything that he needs to complete a house. There are lots of questions to be answered and finish selections to be made by the homeowner. Also, if a builder doesn't expressly state what's included, you don't know if it is just the house, or if it includes walkways or final house cleaning, etc. How about the well, septic system or driveway?

Remember, your custom home is very complex. There are hundreds of details that must be taken care of in order for you to get the home that you want. Don't hire a builder that isn't specific in his proposals or who doesn't meet the other criteria in this booklet. If you do then you are taking a huge risk!

This booklet is provided by Willis Sinclair Homes as a public service to help potential homeowners make a wise decision when selecting a home builder. Willis Sinclair Homes builds full custom homes in the South Carolina Lowcountry. It is owned by a fourth generation home builder with a degree in the construction management field and a retired Professional Engineer.

Willis Sinclair Homes will be glad to sign the *Construction Guarantee* on the back cover of this booklet. It describes what we do. Ask your potential builders to sign it. If they won't, ask why.

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