INCOME PROPERTY LABS

This month's special guest is Amanda's husband Marty who brings with him 20 years of construction experience! Amanda and Marty share everything you need to know and look out for when *Working with Contractors*. Regardless of where you are in your experience there are takeaways for all levels of investors in this month's LIVE Lab: ***Working with Contractors*.**

Agenda

- What is a General Contractor?
- Licensed or not Licensed?
- Qualifying a General Contractor
- Different Contracts
- Change Work Orders
- Payment Schedule & Communication
- Red Flags
- Q&A

What is a General Contractor?

- The title "General Contractor" does not guarantee someone is certified or licensed or even a trade.
- Main point of communication between you and everyone involved in your project
- Hires or manages specialized sub-contractors
- Can be responsible for providing material, skilled labour, equipment, and services necessary for the construction of a project or completion of a specific renovation task
- Completes renovations according to local building codes and regulations
- Identifies scope of work and all associated tasks with completing a renovation project
- Interacts with the project architect, engineer, and/or designer to ensure the project is implemented as planned
- Arranges building permits and all associated inspections

Does a General Contractor need to be Licensed?

It depends on the location of your market and the requirements. Below are examples of different provinces and states in Canada and the US who have different requirements when working with contractors.

Become your own local market expert; it is your job as a savvy investor to research and understand the requirements based on your market.

- **Alberta, Canada- Yes**
    - Businesses in construction and renovations commonly require a contractor's license. These businesses arrange or perform work involving an improvement.
- **Ontario, Canada-No**
    - You will need a business license from your city and business insurance from your clients to become a General Contractor in Ontario. General Contractors must possess work experience or a good technical education in the field.
- **Florida, USA- Yes**
    - To get a Florida contractor's license, the Florida Construction Industry Licensing Board, operating under the Department of Business and Professional Regulation, requires you to be approved at the state level. A Certified license - which is valid throughout the state, permitting the contractor to work anywhere in Florida.
- **Texas, USA- No**
    - Texas does not license General Contractors at the state level. However, many municipalities do require licenses. Check with local city/county requirements and regulations.

Ontario: Licensed Trade & Licensed General Contractor

- **Licensed Trade – Carpenter**
    - An apprenticeship training program consists of on-the-job and in-school training. Generally, the timeframe to become competent in the trade of General Carpenter is 7,200 hours (approximately four years consisting of 6,480 hours of on-the-job work experience and 720 hours of in-school training).
- **Licensed General Contractor**
    - General Contractors in Ontario must serve a three to five-year apprenticeship with a licensed General Contractor and receive a certificate in one or more applicable areas, such as plumbing, sheet metal or refrigeration and air conditioning. The Ontario Ministry of Training, Colleges and Universities oversee the certification process.

When to Hire a General Contractor?

You are going to be the best judge of that because you know what your skill set is and what you can do. However, if you do not understand the job that you are going to perform or if you are going to be working with different trades, it is best to hire a General Contractor. There is a lot of micromanaging and preparations required for a trade's technician and labour coordination in even the simplest of renovations. A General Contractor is guaranteed to know all the necessary steps required for any size renovations.

- Almost always!
- Time + experience + knowledge is required
- We're not saying to DIY if you're not hiring a GC either
- Example: small bathroom renovations and how many trades can be required
- Proper preparation for the next trade and potential conflicts with trades

Rule of 3 Quality Quotes - What to Compare?

Qualify 3 different companies before getting quotes and ensure they are reputable. Bring the three different contractor companies to your site and then get them to provide you with the quote after they have visited.

Note: Being licenced does not necessarily mean the work is good. Understand that some Licenced General Contractors are great, some are terrible. Some non-licenced General Contractors are great, some are terrible too. You need to be aware of the licencing requirements in your area. If it's not required, you can decide if this is a requirement for you.

- **Experience:** (can they demonstrate their credibility, past work, and referrals – word of mouth and legitimate/professional websites are often telling of the quality of their work. A reputable contractor will often have either high quality pictures or videos of their past projects).
- **Price:** (Is the middle price just right?) When the contractor is outlining the product and price for the project ensure they are quality products and the contractor is thoroughly knowledgeable of how to work with and install the product and have a good understanding yourself of the kind of product the contractor will be working with. The type of materials the contractor is looking to install should be outlined and identified in the quote. The price is not always negotiable. Contract quotes and agreements outline the final price. There is an assumption sometimes that contractors are obligated to provide a discount upon request and this is not true.
- **Project Timeline:** Its not reasonable to expect a contractor to start the following week, most reputable contractors are booked in advance.
- **Communication and job are clearly outlined**.
- **Quality and knowledge of products**.
- **Materials included and NOT included.**
- **Size of team:** This is going to have an affect as to whether or not they are going to be able to stick to the project timeline. When looking at the team also ask if the owner works onsite with his team.
- **Don't like them? Don't hire them!**

❖ Booking lead time- use your property viewings before closing day!

Different Contracts,

For anything above a $2500 project you want to get a "Fixed Contract" which will identify everything in the project the contractor is responsible for. Any additional expenses should be notarized and added on top of the contract price. A Fixed contract provides motivation for the contractor to finish earlier as they get paid faster, whereas a "Time Plus Materials Contract" works to your advantage if it is a smaller project.

- **Fixed Price**
    - Outline one set price for the entire project that will not change as long as the scope and materials remain the same. This format is common for large scale renovation projects. Fixed price contracts may cost a little more because the contractor will build contingency; however, they make it easier for you to budget and can make the contractor more accountable for staying within timeline.
- **Time Plus Materials**
    - Outline the cost of materials plus an hourly rate for the work completed. If the project is completed faster than anticipated, the saving will be passed on to you but this can also put you at risk for going over budget if your contractor isn't efficient with his/her time. Time plus materials contracts are more common on small repair and maintenance jobs.

Change Work Orders

Establish a clear line of communication regarding any changes in your project by documenting any changes that need to be made to the project. A change order is a written agreement added to the contract outlining what the change order entails.

- Throughout a renovation you may make changes to the scope of work, material substitutions, or find that additional tasks are added to the project. For each change made during the project it should be documented in a written change order request.
- Your contractor should have a standard form for this process, and you should receive a copy of all change orders to keep on file including notes about changes in payment schedule, project cost, or timeline.
- It is quite common to find something you did not expect during a renovation. A lot of surprises can be hidden behind walls and existing finishes.
- Look for a contractor that clearly outlines how they would notify you of a problem or unexpected circumstance and understand who would be responsible for what.

Payment Schedules & Communication

- Payment schedules and progress check-ins.
- Never pay in full upfront.
- Deposits are common and based on project size & materials required.
    - Expect to pay a deposit upfront prior to start of the project. The deposit it not a standard refundable payment towards the final amount; the intent of the deposit is so that the Contractor can begin to pay their staff and purchase materials for the project. Deposits are generally going to range from 20%-30% of the final amount. Expect to pay a minimum of 10% for the deposit.
- Payment hold-back rules will depend on your location.
    - Upon paying the final invoice you can hold-back a certain amount of the payment if there are deficiencies in the project.
- Deficiencies and final payment.
    - Do not hand over the final payment until you have ensured there are no deficiencies. If you pay in full and there are deficiencies in the project, the Contractor will not come back in a timely manner to rectify them as they have already committed to other projects.
- Communication throughout the project - how often?
    - The standard communication is a site visit once a week. The rest of the communications should be digital or over the phone. Avoid visiting the site every day or calling the Contractor every day.
- City permits and building inspections.
    - The General Contractor should be handling the entire process. It is likely your payment schedule is going to correlate with these inspections. It is a good idea to be fully aware and included in the permit inspections and understand the important checkpoints. The building inspector does not inspect the quality of the workmanship on site. The building inspector is there to ensure everything is safe and up to code.
- Who is checking the <u>quality</u> of the workmanship?
    - If you don't know what you are looking for, reach out to someone who is familiar with contractor work and bring them on your site inspection with you.

Watch for Red Flags

- What is a "Fly-by-nighter?"
    - Someone who shows up, gets you to sign a contract, takes your deposit and is never seen from or heard from again.
- No truck or work vehicle.
- Not showing up when they said they would and working partial days constantly.
- Asking for payments early.
- Bad attitude, makes you uncomfortable and/or combative.
- Underqualified, unprofessional, or not serious.
- Messy and disorganized jobsite.

What if things go wrong?

- Document all verbal communications and email communications. Review your contract thoroughly and document everything.
- Warranty on work - this is included in your initial contract. Warranties are generally 1 year.
- Put a lien on your house – Not paying the Contractor is not a good strategy to get the work done because they have the right to put a lien on your house.
- Legal help.

Final Thoughts

If you think it's expensive to hire a professional - try hiring an amateur.

Note: hiring an amateur may seem like a cost-effective idea in the moment but can end up costing you more in repairs and damages if things are not being done properly.

Success Tools

This month's success tool **Qualifying a Contractor** will provide you with everything you need to know to be able to make an informed decision when searching for a contractor. As a bonus success tool, we've also included **Reviewing a Contractor Quote & Contract Checklist** to help you stay on budget and be able to sign a contract with confidence!

That's it for now. Be sure to tune in next month!

Have a fantastic day!

Amanda & Marty 😊