

Negotiating the Home Remodeling Contract

for link and support information, link to: www.LetsRenovate.com/services



Construction Specifications:

- **owner specifications should be part of every contract before you sign**

specifications should include all supplies that will be used and what services will be rendered

- **specifications should list the brand, make, model, number, style, type, color and any other descriptions,**

plus whether the materials used in construction will be new or used

ensure that the specifications are exact in detail to protect you from inferior use of products and to compare "apples-to-apples" specs with several lenders

be as detail as possible for every room in the house — see our Remodeling Project Plan for product discussion and design ideas

- **for more information about contract specifications:**

www.uniteddesign.com

view a listing of residential specification categories:

www.uniteddesign.com



Labor Specifications:

- **labor and sub-contract specifications should be part of every contract before you sign**

labor and service specifications are generally referred to as general conditions or terms of conditions

specifications should list clean-up clauses, date of commencement, acquisition requirements, trash removal, transportation of workers, dump fees, etc.

you should specify whether alcoholic beverages may be consumed on your property get everything down in writing; never accept a verbal agreement

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Contract Negotiations:

- **the contractor will supply a bid or estimate after looking over the project —**

make sure the contractor bids on the Contract Specifications to avoid misunderstandings

all bids should be in writing

all bids should specify which materials will be used
- **take the time to review the bid or estimate —**

walk away from any pressure tactics to sign the contract prematurely

be careful what you sign — signed bids may act as a contract agreement

its best to receive two or more bids to compare contractors
- **if each contractor received the exact building specifications, you should be able to compare bids apples-to-apples —**

best overall bids should be priced in the middle- to high end

if the submitted bids are over budget, work with the contractors on recommendations where you can cut costs — then resubmit the reduced plan through the bid process
- **you may sign the contractors contract or supply an owner's contract —**

either way, have an attorney look over the contract
view sample bid proposal: www.LetRenovate.com/services

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Payment Retainers:

- **the contract will specify payment schedules that generally have 5-6 or more draws during the contract period**

a draw will be made at the end of a construction phase to pay for work completed

about 5-7% of the initial bid is enough money to begin the project — builders will then submit invoices for a draw

- **you should maintain a minimum 10-20% retainer at the final draw —**

this draw is released upon final inspection of the construction

allow anywhere from 2-4 weeks on the retainer to confirm that everything is in working order — once the money leaves your hands, you will find it difficult to get the required attention

- **if a lender is doing the financing,**

have the lender make payments directly to the owner, not the contractor, or have the payments issued in both names

this way you can check invoices and review work orders to confirm that you are not being billed twice or for items not part of the project

get in writing that the lender must receive or satisfy all lien releases from suppliers and subcontractors before issuing any payment and that a copy be supplied to you

- **lenders will often inspect the premise prior to release of a funds — they do not inspect for quality**

you may want to hire your own inspector to check the quality of work before signing any phase completion form

- **upon final payment,**

make sure you have all final releases of the lien and a copy of the final invoice showing that the contract has been paid in full

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Change Orders / Extra Clauses:

- **you will most likely want to change something or add an extra during the construction period**

a change may be better materials, different colors or another texture extras may include more space or a second closet

make sure that contract allows for change order / extra clauses before you sign

- **if you make a change order, get it down in writing**

these changes become part of the original contract that should be signed by the contractor and owner before going into production

never accept a verbal agreement to a change — and never leave a voice mail, email, or written note hoping the contractor will add the request to the contract



Other Parts of the Contract:

agree to dates:

1. dates of acceptance
(the date when the contract is signed),
2. date of commencement
(the date when the work is to begin),
3. and date of completion
(the date when work is to be completed)

- **discuss with the contractor delay clauses —**

this allow you to assess a penalty if controlled delays push completion date beyond the agreed to date.

note: if you insert a penalty clause, the contractor may request a bonus for early completion. You need to run the numbers to determine whether this is beneficial to you.

make sure the architect, contractor, owners and any designers to the contract agree to the dates before the draftsman completes your plans

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- **you want to avoid any delays in your project schedule —**

it can cost you money

the contract should include a list of subcontractors — plumbers, electrical, roofing, etc. — with all applicable business information

request their names, address, business licenses, etc.

the contract should list the name, address and phone number of all suppliers — you will most likely receive notices or lien releases from these players. It would be nice to have a file to track these players.

make sure the contract states that you will be released from all liens upon payment — you will want to have a copy of all releases for your files

- **get performance statements and unforeseeable work clauses**

performance statements guarantee that the work and supplies meet specification and building code requirements

unforeseeable clauses fixes leaking pipes, non-working electrical

- **state in the contract that the contractor is responsible for all required building permits**

insert liability and warranty clauses that protect you in the event of damages, injuries, etc. have your attorney review

- **you may request a purchase allowance, which allows you to shop for materials of your choice**

the difference in the purchase price as stated in the contract is refunded to the contractor or owner, depending on the price you pay

- **insert a cleanup clause and work schedule of when the work should be performed**

make it a habit drop by to see that the contractor adheres to the agreed schedule

lookup state, county and city governments for information about contractor licensing: <http://www.statelocalgov.net>

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Understand Liens:

- **a construction lien allows any contractor, sub-contractor or supplier that has not been paid to place a lien on your property as security for payment**

a lien against your property will inhibit you from selling or obtaining financing, in some cases, until that lien is paid

the most common liens occur when the subcontractor fails to pay his suppliers, even though the full invoice has been paid by the owner to the subcontractor

the suppliers can then place a lien on your property for payment

- **a construction the general rule is to never make a payment without receiving a release of lien from the contractor, sub-contractor and supplier, and whomever else is involved**

in some states, it is required that the sub-contractor and/or supplier notified you that they will be performing some work and/or providing some supplies

if your state does not require it, request it in the contract.

save these notices as a reference file for tracking who may have a lien on you until final payment

it is recommended that the contract has a provision that the contractor is responsible for obtaining all liens

if not, then that responsibility falls upon you