



LendingOne
Private Real Estate Lending

A REAL ESTATE INVESTOR'S GUIDE TO MANAGING CONTRACTORS FROM START TO FINISH

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Introduction

“The most difficult things and challenges I found was dealing with contractors. Finding and having the right contractor is extremely important.” ----Stefan, Virginia Investor

If you ask any investor who has been in the real estate business for a while, one of the biggest headaches they have probably encountered is dealing with contractors. After going through the difficult process of locating a home you wish to invest in, acquiring the finances you'll need to purchase the property, and successfully buying it, you now have the task ahead of you to start renovating it. If you are in the business of fixing and flipping homes, clearly the “fixing” stage is vital. The same goes for a buy and hold investor because you may want to rehab the home before it is ready for tenants to move in.

This is where the difficulty begins. Unless you have a background in construction, you'll need to try and find a suitable contractor to renovate your property. You have to understand where to look and the questions to ask when determining their credentials and experience. You need to know what paperwork to



include when hiring them, how to clearly outline the work that needs to be completed, and the proper way to manage the contractors once the renovations are underway. This guide will teach you important tips and provide you with pieces of advice when dealing with your contractors from start to finish, so you'll have an easier time handling them in your future fix and flip or buy and hold renovation projects.

STAGE 1: RESEARCH AND EVALUATION

The initial step to locating a good contractor is knowing where to look. Don't just open up the phone book or type in "real estate contractors" on the internet and pick the first name you see. You'll want to know that who you are hiring is someone you can trust to complete the job correctly.



One of the first ways you can find potential contractors is to just ask around. Word of mouth can be a valuable tool in this business. Contractors gain a reputation, either good or bad, depending on how well they do on a job. If you know other investors who renovate houses, ask who they have used in the past and if they were happy with their work. Find out how reliable the contractor was with keeping to the budget and finishing the project in a timely manner. The customer's level of satisfaction is a great determinant for how well the contractor works.

STAGE 1: RESEARCH AND EVALUATION



If you find that asking other investors isn't producing enough results, you can go online to continue your search, but choose websites that are well known for their reliable reviews and insightful information. Consider sites like Yelp or Angie's List which have a high volume of users and viewers posting a wide variety of customer comments and reviews. Not only will you get a good list of contractors, but you'll be able to simultaneously read what others have had to say about their experiences working with them. For even more official insight, check out the Better Business Bureau and see if any complaints were filed against the contractor you are considering.

Once your initial research is complete and you have compiled a good list of potential contractors, it is time to conduct further research in order to evaluate their experience before determining if they are a good fit for the project you are renovating. Find out what other properties they have worked on, and if they are local, drive by and see the results; otherwise, ask to look at some photos if they have any. Request referrals and references just as you would if you were interviewing a potential employee for your store. Let's face it. This is still a business and you'll want to know about who you are working with.

STAGE 2: BIDDING TIME

After you have followed up with any background checks or past work experiences, you'll need to get a quote from your contractors before making that final decision. Allow them to assess the property and give you an estimate for how much they want to charge to complete the job, which should include a detailed list containing the cost of labor and materials. This is where being a savvy investor is especially important because you should have a relatively good idea of the price of supplies so you'll know whether or not your contractor is overcharging you.



STAGE 3: CONTRACT FOR THE CONTRACTOR



Now that you have made that final decision on which contractor you want to hire, the next step is to draft a contract. Just like any other field of employment, the partnership between you and your contractor constitutes a business agreement, so you will want to make sure you have a contract that outlines exactly what the job entails from the start date to the finish, also known as the scope of work (SOW).

Additionally, your contractor should provide you with an itemized list of materials to be used and labor, and an estimated cost for the overall job. If you are new to investing, you may want to have your real estate attorney look over the contract to make sure everything is clear and acceptable for both parties. This binding agreement is important for you and your contractor because in the event that there are any discrepancies in payments, charges, or work completed throughout the project, the contract can be referred to.

STAGE 4: ORGANIZATION IS KEY

“A lot of what I do is really spending the time going over the rehab with the contractors and being very clear on how I’m going to pay them and what I want done and when, setting timelines, and working through the project to get the outcomes I want.” ----Gary, Indiana Investor

It is especially important before the project begins to create a schedule with your contractor and his team. Being organized is essential for any rehab project because it will save you time and money. They aren’t mind readers, so it is up to you to explain clearly what you expect to be completed on



the property, how you want it done, and when you want it finished by. Walk your contractor through the property and give them a detailed plan of what they should be doing in each room, whether it is painting, removing the floors, or upgrading the kitchen cabinetry.

The time it takes a contractor to complete a job is as critical as the cost itself. A job that runs too long will take the profitability out of your project very quickly. There are various metrics used to determine how long a job should take and varies by complexity. The range is \$500-\$1000 of spend per business day, so a \$20K project should take no more than 4-8 weeks. Time is money in real estate, and unsold or non-performing properties will put you out of business fast.

STAGE 5: MANAGE THE BUDGET CAREFULLY

“Knowing the cost and selection of materials that the contractor is installing is key. Create a standardized cost sheet for products like sinks, flooring, and kitchen appliances.”

---Bill Green, CEO of LendingOne

Your budget is another essential aspect you’ll have to work out with a contractor. Even though you have let them know how much you are willing to spend, it is still important to keep track of expenses because you may find your budget slowly rising more than you anticipated.



Some investors will give contractors a lump sum for materials at the start of the project and cap it at that amount, while others may provide them with money in installments throughout the course of the rehab so they can keep an accurate track of how much is being spent on what.

STAGE 5: MANAGE THE BUDGET CAREFULLY

For more experienced investors who have either been in the business for a while or have a background in construction, they will manage the budget by standardizing the cost of materials. This means that investors will already know, depending on the specific project, what materials they will be purchasing and how much they should cost.

For example, if your contractor tells you a kitchen sink will cost you \$250 plus \$100 for labor, an investor who has standardized his materials will know that he can get this same sink at a big-box retailer for \$50 instead and have it delivered himself, thereby saving \$200 on just this one item. If he could apply this same strategy to other supplies and materials, imagine how much money he could save on the overall project because he didn't leave it up to the contractor to decide what to purchase.



STAGE 6: CHECK IN AND WRAP UP THE PROJECT

Don't hesitate to check in with your contractors each day if need be. Stop by, sometimes without even letting them know you are coming, and see how much progress they are making. If you are busy with multiple property renovations simultaneously, hire a project manager to coordinate the daily efforts at your property. A responsible investor will want to manage their investment rehabs to ensure everything is being completed in a timely manner and within budget.



Once the project is complete, do a final walk-through with your contractor and make sure everything looks good. If you are satisfied with the work, make sure to pay them fully. This may sound obvious, but you won't want to deal

with a contractor filing liens against your property for failure to pay them. Be sure to refer your contractor to others as well if you are happy with the overall project. Just as you sought referrals before working with them, your recommendations can help future investors decide if they want to partner with your contractor as well. If you plan on completing more real estate renovations in the near future, you may have just found your go-to contractor for the job.

CONCLUSION

Trying to find a good contractor is like purchasing a car. You do all the research you can on different vehicles, read countless reviews about them, ask your friends or family what they recommend, and test-drive each potential car at dealerships, until you finally find a vehicle that'll fit your needs. You'll want to make an informed decision before choosing the right car because you will have to live with the results for as long as you own the vehicle. The same goes for finding a contractor. You need to know their background and level of reliability before hiring them since you will have to deal with the work they do on your home as a result.



Be a smart investor and don't just pick the first contractor you find because you are under a time crunch, and don't necessarily choose the cheapest one either just so it fits your budget better. Find someone experienced and trustworthy and interview them just as you would any employee you are looking to hire for your business. Be vigilant with how you manage them so you'll have a successful project and maybe even develop a long-term partnership for any future rehabs you need to do on your real estate investment properties.