

# RENOVATIONS 101 – WHERE TO START AND WHAT YOU NEED TO KNOW

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You've decided to renovate but have no idea (or maybe you think you do) how much it will cost or how long it will take. Doing your homework is essential however it must be exercised properly. At this point many people have a general idea of what they would like to do so they call two or three contractors to get quotes. This process is fine to obtain ballpark numbers only, to see if it is feasible to go ahead with the project but more often than not, people are trying to select a contractor based on this process. The big problem is that not many people have drawings or specifications to accurately price or put timelines to the job. We've seen it numerous times where one contractor will take hours discussing in detail and asking dozens of questions about the homeowner's vision of the project; where the next guy comes in doing a quick walk about gathering only a few details. When the budgets come in they are often dramatically different because the first contractor priced in the numerous things discussed. The next guy, knowing if he comes in low, will have a good shot at landing the project; priced in his dozen or so specifications and assumed everything else was builder grade because there was no consistent information supplied. Product and design selections can impact the costs in the tens of thousands.

So often we hear back from people who awarded contracts to the cheaper guy saying "he's way over budget and taking way too long. We are getting hammered with extras and change orders... would you be interested in taking over the job?" The answer is usually "I'm sorry to hear that but unfortunately, no we can't." No one wants to start up where someone else has left off and pick up the pieces not to mention a natural concern of a possible bad client, they do exist. A couple of things to note; it isn't necessarily their chosen contractors fault because he priced the job based on information provided, then the scope of work or specifications changed. The other thing is; the cheapest guy isn't usually the best choice to make... as with anything, you get what you pay for.

Initially some people will unknowingly call a design-build contractor (see below - *types of contractors*) and be asked to provide a substantial non-refundable deposit before they will commence or release design drawings and specifications, present a quote or budget to the potential client. There are certainly reputable design-build contractors available however you must be 100% confident in their abilities, delivery of fair value and be comfortable that your working relationship will click or possess synergy through to the end. In this scenario keep in mind 2 things: You've paid out a substantial non-refundable deposit and may be reluctant to change contractors before construction starts should you not be happy with the results thus far. After receiving the drawings, specifications and pricing from the design-build contractor; you may be reluctant to obtain other quotes to verify that the price delivers value. If you do get other quotes from reputable contractors that deliver better value, are you prepared to walk away from a deposit that may exceed the actual costs of what you received in design and spec work? Typically design-build contractors obtain non-refundable deposits to secure contracts in the early stage. Most sub-contract the design work out to independent designers, which is fine but really, it is something you can do and then they are your drawings and specifications. Don't get me wrong, I have many friends who are design-build contractors and do great work. I also know that most of them would be happy to price your job if you came to them with drawings and spec's in hand, so not to worry, you won't be eliminating all of the design/build contractors from your quoting process.

In my opinion, the following steps provide the most logical, fair and equitable process to both homeowner and contractor alike... a level playing field for all while minimizing surprises, saving time, frustration and money with a clear decisive path to assist you in achieving a good renovation experience.

### STEP 1: Wish List

Compile a detailed wish list, photos and scope of work to the best of your ability. HOUZZ.COM is a great source for ideas. Contact a reputable contractor (see below – *hiring a contractor*) to obtain a ballpark estimate which will help you determine whether or not you will proceed with current vision or modify your project scope to suit your budget. (At this stage there is no need to waste a lot of people's time including yours by getting multiple ballpark estimates, especially if you decide not to do the renovation)

### STEP 2: Design Professional

Select a qualified structural design professional or design firm. This is an important step. You must have a good designer, plans and specifications (materials, finishes, custom pieces, special orders etc.). With an investment of this nature you cannot just wing it with a sketch, magazine and a number in your head, hoping it will all turn out in the end. You, the contractor, the trades and suppliers all need a map to get to the final destination, avoiding costly detours and time delays along the way. While renovation surprises are sometimes unavoidable, they can be minimized by good design planning. A design professional will partner with you to translate your vision into real terms that can be consulted upon and understood by contractors, trades and suppliers. Changes... we all hope they won't happen but experience dictates otherwise. You want to minimize changes and extras as they cost time and a lot of contractors charge huge premiums on them. Designers can provide an ongoing resource for dealing with changes and support your decisions.

If you are not sure where to look for a good design professional, ask friends for referrals who have had success with theirs or better yet, call a few reputable contractors for some contacts. Contractors who have worked with designers know firsthand whether or not they measure up. Its one thing to have it on paper, but it's another to build it and have it all come together. Interview two or three designers and don't be afraid to ask for references (call them) and ask a lot of questions. Make certain you feel comfortable with them and their ability to assist you with your vision... remember it is your home and your money. You don't necessarily want to spend it creating a designers' signature branded design to achieve their goals, but rather yours. It is important however to keep an open mind, a good designer will speak up and you should listen when an idea you have may not be the best, but at the same time you don't want to be pushed into something that you don't really like.

### STEP 3: Types of Contractors

There are multiple variations of contractor types but there are 4 primary business models utilized by renovation contractors, each operating in a unique way. A brief understanding of each will help you determine which system is best suited for you before you research which contractors to invite to quote.

#### ***Fixed Price Contractor***

Typically provides written scope of work along with lump sum fixed price quote as per drawings and spec provided.

- Generally does not break out separate line item costs such as framing, plumbing, electrical, windows, fixtures, flooring etc.
- Does not operate with transparency by revealing builder pricing or their actual costs.
- May have some in house trades, usually carpenters. Also sub-contracts independent trades.
- Mark-ups typically 35 to 45%
- Change orders, extras and upgrades often 50 to 70% mark-ups.
- Often restricted to limited product selection categories. (eg. Bronze, Silver, Gold) Stepping outside category can incur upgrade requirements and related mark-ups.
- Payment terms usually required by advance lump sum milestone draws at various stages of progress except final payment.
- All payments made to the contractor. Contractor pays sub-trades and suppliers.
- Holdbacks are necessary to help provide you some protection from Builder Liens against your property by unpaid sub-trades or suppliers.
- **FIXED PRICE CONTRACTS ARE OFTEN MISCONCEIVED AS ALL INCLUSIVE CONTAINING NO EXTRA COSTS ASSOCIATED WITH THE PROJECT. THIS IS NOT THE CASE. ANY UNFORSEEN ITEMS OR EXTRA WORK REQUIRED DUE TO LATENT ISSUES, EXTRAS, UPGRADES AND CHANGES, ARE ADDITIONAL COSTS TO THE CONTRACT AND TYPICALLY SUSEPTIBLE TO RELATED MARK-UPS.**

#### ***Design-Build Contractor***

Much like the Fixed Price Contractor above, but prefers to get a commitment before design or pricing have been presented. Generally involved with the design; usually requesting a non-refundable deposit prior to design commencement.

## **Cost-Plus Contractor**

Usually the cost-plus model has the contractor compile a budget with a breakdown of line items as per drawings and specifications provided. A common misconception is that the word “cost” in cost-plus is the builder price/actual wholesale cost but it usually is not. It really should be called “Dealer Price Plus”. Your cost is determined by the contractor by utilizing the builder price/actual wholesale cost (this you don’t see) and adding a percentage for profit, plus a percentage for overhead; totalling your cost or dealer price (the one you see). The plus in “cost-plus” is a percentage to allow compensation for a site supervisor and/or a project manager. These mark ups can be manipulated in several ways, depending on the contractor. Some may reduce their management fee to appear a better value than a competitor. For example; cost plus 15%. In this example they can take builder price/actual wholesale cost and add 10% profit and 10% overhead, which becomes your cost or dealer price; then adding the 15% management fee totalling a 35% margin. Some may offer an 18 to 27% management fee and mark up the builder price by 10%. At the end of the day, if you are not paying the trades or suppliers direct, you are not likely paying the builder prices/actual wholesale costs without the mark ups.

- Usually break out separate line items.
- Generally do not operate with transparency by revealing builder pricing/actual wholesale costs.
- May have some in house trades, usually carpenters. Also sub-contracts independent trades.
- Margins typically 35 to 45%
- Change orders and extras often 40 to 70% mark-ups.
- Payment terms vary from scheduled pay periods based on work completed to advance lump sum draws at various stages of progress except final payment.
- All payments made to the contractor. Contractor pays sub-trades and suppliers.
- Holdbacks are necessary to help provide you some protection from Builder Liens against your property by unpaid sub-trades or suppliers.
- May have line item charges on budgets and invoices for site supervision, or profit & overhead, insurance, miscellaneous, etc. (WHEN SELECTING A CONTRACTOR, ALWAYS READ THE FINE PRINT AND REVIEW CONTRACTS, SPREADSHEETS, BUDGETS, COMPETATIVE PROJECT PROPOSALS IN DETAIL TO DETERMINE TOTAL MARK-UPS. THE FEE CHARGED OR DISCLOSED MAY BE JUST A BASE FEE TO APPEAR MORE APPEALING). ALSO KEEP IN MIND THAT WHOLESALE PRICING VARIES FROM ONE CONTRACTOR/RENOVATOR TO ANOTHER. GENERALLY LARGER VOLUME CONTRACTORS/RENOVATORS RECEIVE THE DEEPEST DISCOUNTS WHICH TRANSLATES TO YOUR OVERALL COST.

## **Project Management**

Sometimes called construction management; the contractor compiles a budget with a full breakdown of line item costs based on drawings and specifications provided by independent designer or homeowner.

- Fully transparent system allowing you see the builder pricing/actual wholesale costs (real hard costs) or quotes from various trades and suppliers within the contractor's network.
- You have the opportunity to compare quotes against the budget and you approve each and every quote prior to your commitment of each.
- Usually obtains quotes from long term independent trades and suppliers.
- Operates with the transparency of builder price/actual wholesale cost plus a flat management fee.
- Management Fees typically 25 to 30%
- Change orders and extras with no premiums. Same management fees as primary scope of work.
- Payment terms are typically scheduled pay periods based on actual wholesale costs in place and work completed. No advance payments except to suppliers for custom ordered products.
- All payments except management fee paid directly to trades and suppliers at quoted builder pricing/actual wholesale costs. Management fee only, paid directly to contractor.
- No holdbacks required. By paying trades and suppliers directly you eliminate the possibility of Builder Liens.
- When comparing contractors utilizing this business model, some may have line item charges on budgets and invoices for site supervision, or profit & overhead, insurance, miscellaneous, etc. (WHEN SELECTING A CONTRACTOR, ALWAYS READ THE FINE PRINT AND REVIEW CONTRACTS, SPREADSHEETS, BUDGETS, COMPETATIVE PROJECT PROPOSALS IN DETAIL TO DETERMINE THE TRUE TOTAL MANAGEMENT FEES. THE PERCENTAGE FEE CHARGED OR DISCLOSED MAY BE JUST A BASE FEE TO APPEAR MORE APPEALING). ALSO KEEP IN MIND THAT WHOLESAL PRICING VARIES FROM ONE CONTRACTOR/RENOVATOR TO ANOTHER. GENERALLY LARGER VOLUME CONTRACTORS/RENOVATORS RECEIVE THE DEEPEST DISCOUNTS WHICH TRANSLATES TO YOUR OVERALL COST.

## Step 4: Hiring a Contractor

Now that you have a good design plan, scope of work, product selections and specifications completed, realistic quotes or budgets from reputable contractors are attainable and you are more likely to receive apples to apples results which will help you make a solid decision on your contractor selection.

Ensure the contractors that you are considering have a Provincial Prepaid Contractors license and a City Business License, Insurance, bonding, WCB coverage and provide a warranty. Always stay away from underground tailgaters or cash contractors. When you pay cash, you have nothing to fall back on for warranties, deficiencies or any other problems that may arise.

Narrow down your list of potential contractors by finding out which type of contractor they are and if they practice the business model or models of your liking. Then interview the short list to see if they are a good fit for you and your project. Invite them to quote or budget your project.

### Things to Consider

- You may hear a barrage of statements, some true and some myth. For example some may claim they have “in house trades” implying that they are better than sub-trades. This is completely false as there are many extremely talented sub-trades as well as in house. In fact some argue that sub-trades are better because they practice their trade on a daily basis continuously honing their skills whereas an in house trade often is utilized for multi tasking and as the saying goes, “jack of all trades – master of none”. Most contractors’ sub-trades have been with them for years and feel they are the cream of the crop in their field.
- Ask to review their contracts, check out things such as payment terms. Is it pay as you go for completed work or is it large advance milestone progress draw payments? Be careful with draws, in some cases you can be upside down which can hinder your job’s production. For example you’ve paid out 70% of the project costs but the progress is only at 55%. If the contractor is very busy and has you upside down, it is quite possible the crew will be at another job making someone else happy for 2 or 3 weeks while you wait for them to come back. The payment terms should be equitable with no one party having an advantage over another.
- Ask how many projects are given to each of their project managers or site supervisors. Experience shows that running 4 projects is a maximum for anyone to give the amount of attention to detail required for a quality job.
- Get references for past clients as well as a current one to see how their job is going. Base your opinion of a contractor’s quality of work by viewing one or two real reno projects that they have completed as opposed to what they have in a showroom, if they have one. Anyone with a showroom will naturally put their best work on display.

- Value: let's assume you have short listed your potential contractors to 2 or 3 who can deliver the level of quality and service that you are looking for. Now you have to determine how to receive the best value. A renovation is made up of thousands of components, time and labour, all of which have a hard cost and each contractor can pay different wholesale prices for that product. The cost to the consumer by each contractor is completely dependent upon margins and buying power. Every contractor has different overheads which often dictate the margins they must make. Some may have more service calls or warranty issues than others. Some may be great renovators but not such great business people. Bad debts, bad clients, bad weather and sometimes bad luck can all contribute. Some may be too top heavy with administration staff or may have fancy showrooms all of which increase overhead, leading to the requirement of higher marketing costs to bring in enough business to feed the monster they have created. Then there are some that operate lean and efficient yet still deliver great value and service. So, you must ask yourself what level of importance is it to you for the fluff or optics that some contractors offer and is it worth paying for those extra margins, or would you rather put that money into your home? You definitely want someone who is reputable, established and solid, who can provide quality and service at the best value.
- A contractor that operates with a transparent business model will have no problem telling or demonstrating to you their margins however; you may have a difficult time getting a straight answer or any disclosure from someone who does not. This is not necessarily a bad thing because some are of the opinion that it is no one's business knowing, just as the general public isn't aware of other businesses profit margins. It can be viewed similar to a personal question such as someone asking you how much money you make. There is one certainty about mark ups; any business in this industry must achieve a minimum mark up of 25% to remain sustainable. It is important that the company or contractor you choose be sustainable to ensure they are around to see your project through to completion and beyond for warranties or future projects.

Once you have received your quotes or budgets you should have the bulk of the information required to make your final contractor selection. Try to ensure that everything in your scope of work, specifications and product selections are included. There is always the possibility of someone attempting the bait n switch approach just to get the job. This is where a contractor comes in low by not including a few things or basing them as builder grade with the intention of getting you later with extras or change orders. This can cost you more in the long run because of the premiums some charge on those changes or extras and there are many contractors who count on them for large profits. It can be like death by 1,000 cuts. If a price sounds too good to be true, it likely is. The same goes for timelines. If someone is telling you they can complete the project in a much shorter time than the others; that should be a yellow flag. These two items in particular, price and timing, often sway people's decision because they hear and see what they want to believe and in too many cases are sadly disappointed.

## Do's and Don'ts during the Transformation of Your Home

Communicate, communicate and communicate. Quick decisions (designer can help) on changes. Keeping the cash flowing keeps the job flowing. Don't yell at trades should you see something out of line... instead, talk to the site super, contractor or project manager. A disgruntled trade will automatically lose pride of workmanship and adopt a bad attitude if not treated with respect. If criticism is required, leave it to others to carry it out in a constructive manner.

## Time, Quality and Money

With numerous home make over programs on television today, many are casting a perception of the renovation process which can leave some clients with unrealistic expectations. Quality is something you would be hard pressed to find in a 7 day make over, not to mention its' difficulty to determine with the magic of television. As a rule there are two important factors that directly affect quality. Time and money... without sufficient amounts of both, quality is sure to suffer.

Under no circumstances allow the compromise of quality in order to gain time and under no circumstances allow corner cutting by anyone in order to save money. Quality can be achieved by efficiency but never by way of compromise, thus delivering value.

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The Canadian Renovators Council is part of the Canadian Home Builders Association and is comprised of a representative from each province. The main purpose of the CRC is to bring continuity across the country with different programs, regulations, concerns and ever changing building codes. The CRC also is one voice for the industry and acts as liaison between its members, local associations and various departments and levels of government.

I wrote the above article during my term as the Alberta Rep. CRC-CHBA and submitted it to the CRC in Ottawa during one of our meetings. One of the items on the agenda at the time was to come up with new campaign content to raise public awareness of professional renovators and how to hire a renovator. The document was well received and all present acknowledged its validity. That being said, there were some concerns with one portion, in particular the discussion about margins, publishing or disclosing them may upset a large percentage of the membership. I completely understand that without attracting new members and continued membership renewals, the CHBA's could not exist. Many renovators are very sensitive about keeping internal business matters, internal. I maintain that the industry as a whole will benefit with transparency and disclosure. If a contractor is doing nothing wrong, not overcharging and has nothing to hide; they shouldn't take issue with it. In fact the good ones should excel with more business. Time will tell how much of the material will be adopted for publication.

This information is not intended to single out or do harm to any one particular renovator or contractor, but rather to assist the public. There are definitely good renovators in the marketplace, please use this information as a bit of an eye opener to help you make the choice that is right for you.