

CONTRACTOR SURVIVAL GUIDE



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Leadflow
6659 Pearl Road, Suite 301
Parma Heights, OH 44130
www.Leadflow.com
support@Leadflow.com
855-545-2095

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FINDING AND HIRING GOOD CONTRACTORS

Outside of great private lenders, having great contractors on your team is an essential part of being successful as a residential real estate investor.

A major fear common among most new investors is the ability to find and manage good contractors. This is a very legitimate fear as using bad contractors can lead to longer timelines and increased costs due to things like slow work, poor workmanship, and costly change orders for work that wasn't budgeted for upfront. Using the wrong contractors can quickly reduce your profit on a project and can even lead to legal troubles.

On the other hand, finding good contractors can save you lots of time and money on every project.

There are four steps to finding and hiring a good contractor.

- **Find Potential Contractors**
- **Pre-Qualify Contractors**
- **Get Accurate Bids**
- **Get The Paperwork Signed**

Let's take a look at each of these steps individually.



STEP 1: FIND POTENTIAL CONTRACTORS

First, start by finding a good pool of potential contractors that you want to contact to pre-qualify. There are several places you can go to start building this list.

The majority of these sources are referral based and will require a bit of networking to acquire. Oftentimes you'll find that people are happy to share their contractor references in this industry. A good relationship with a contractor is beneficial to both the investor and the contractor, so don't be afraid to ask anyone you meet if they can refer some good contractors. Just remember to always present your business well and keep business cards handy.

HERE ARE A FEW GREAT PLACES TO START...

- Websites (Angieslist.com, Thebluebook.com, Homeadvisor.com, etc...)
- Google.com
- Online Real Estate Investor Forums (Biggerpockets.com)
- Local Real Estate Investor Associations (REIA's)
- Local Home Improvement Stores (Home Depot, Lowes, local specialty stores)
- Local Building Departments

Pro Tip: Go to local home improvement stores early in the morning, around 6am, to see and meet contractors who are picking up materials for their jobsite. Getting an early start on a project is oftentimes a sign of a responsible contractor who isn't showing up late in the morning and wasting precious time.





STEP 2: PRE-QUALIFY CONTRACTORS

Once you have a list of potential contractors, the next step is to pre-qualify them. This process involves asking them the right questions upfront and then explaining your system to gauge their receptiveness to how you do business. This can be done over the phone or in person.

Remember, you are not just looking for the lowest price when finding a contractor. You are looking for someone who will be easy to work with, will fit well into your system(s), and will perform quality work on every project.

Ask potential contractors the following questions to gauge their level of professionalism and experience.

HOW LONG HAVE YOU BEEN DOING THIS?

This question is designed to learn just that, how long they have been in business. The more experience they have, the better. A minimum of three years experience is a good place to start.

DO YOU HAVE YOUR OWN TOOLS AND EQUIPMENT?

This question is designed to determine if they have their own tools and equipment or if they will need to rent equipment. Having their own tools and equipment shows that they are not only established, but that they also won't be adding rental costs into their bids.

HOW LONG HAVE YOU BEEN RUNNING YOUR OWN CREW?

This question is designed to determine whether they work alone or with a crew. Remember, if it's just them, you can expect longer turnaround times on larger projects. If your project is a smaller job, a one man crew may be the right choice.

Similarly, a good follow up question is **"How many people do you have on your crew?"** You are trying to judge how fast they will work and how much volume they can handle.

ARE YOU LICENSED AND PERMITTED?

This question is to determine whether or not they are licensed to work in your state. You also want to make sure that their license is up-to-date.

DO YOU CARRY LIABILITY INSURANCE AND PROVIDE WORKERS COMPENSATION INSURANCE?

It is essential that you determine whether or not they have insurance, which will protect both you and them in the event of unforeseen accidents or disasters.

Follow up with questions like, **"What type of insurance do you have?"** and **"How much coverage do you have?"**

DO YOU USE SUBCONTRACTORS?

This question is to help you determine what their workflow is like. Most General Contractors subcontract work for major trades like Electrical or Plumbing, but may have crew members that do roofing or finish work. Either way, it's good to have an idea of what their team looks like and how they'll be working during the course of the project. You should also verify that anyone they subcontract is licensed and insured as well.

HAVE YOU EVER DECLARED BANKRUPTCY?

This question is designed to determine whether or not they have found themselves in bankruptcy before, which can be common in the contracting industry. Ultimately you want someone who has not been in bankruptcy previously as this could indicate poor business decisions.

CAN YOU PROVIDE REFERRALS FROM PREVIOUS CLIENTS OR CAN YOU PROVIDE ME ACCESS TO JOBS YOU HAVE COMPLETED FOR OTHERS?

This question is very important. Referrals help you find out how the contractor is to work with and what type of work they do. You want to follow up with these referrals and, if possible, visit current and recently completed job sites.



HOW DO YOU CLEAN YOUR JOB SITE?

This question helps determine whether or not they are going to keep your job site clean, not only at the end of the job, but daily. A dirty, cluttered job site can be a liability and can look unflattering to passers by who may be potential buyers.

HOW MANY PROJECTS DO YOU HAVE GOING ON RIGHT NOW?

This question is designed to determine if your project is going to be able to fit into their schedule. The smaller the crew, and the more jobs they have, the less time you will get and the greater the potential for your timeline to be extended.

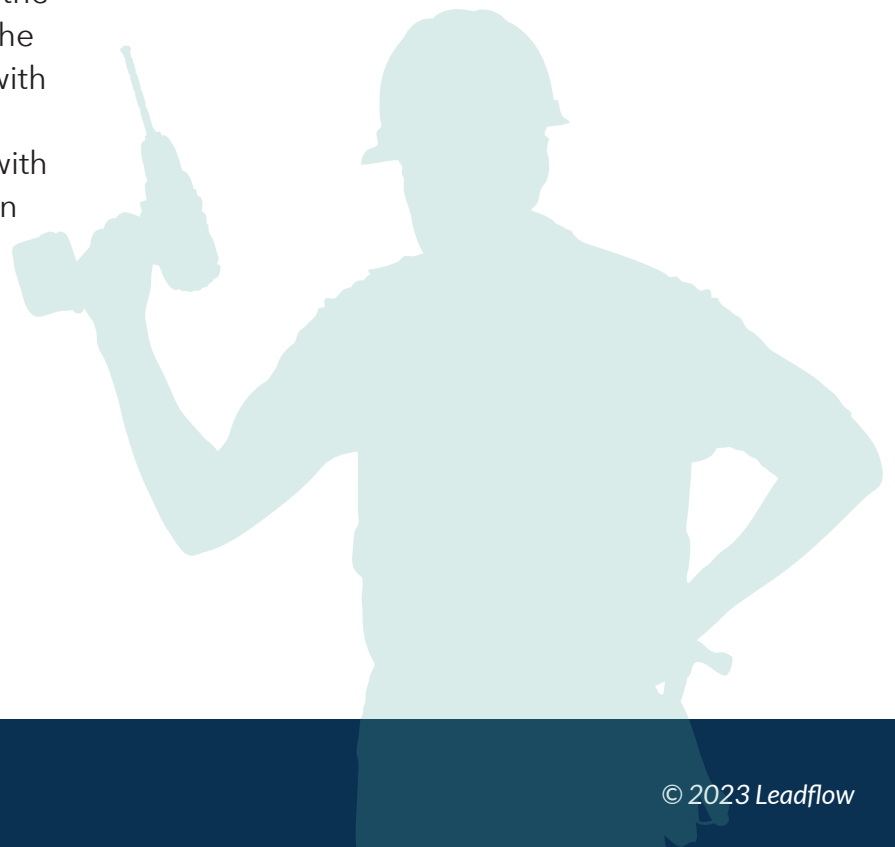
HOW OFTEN DO YOU COMMUNICATE WITH YOUR CUSTOMERS?

This question is designed to figure out how they will communicate with you during the project. Will it be daily, or weekly? On the phone, or in person? Don't lead them with your expectations, let them answer openly how they would communicate with you during the project and then you can determine if that is acceptable to you.

Pro Tip: In your initial meeting pay attention to their appearance, their truck, job site, and professionalism. You are looking for someone who is very professional and pays attention to detail.

The next thing you'll want to do is deliver a powerful pitch of your business. You're trying to get them excited about working with you and to ease their concerns because, let's face it, they, as business owners, have concerns and things that they are looking for as well.

Start off with a brief elevator pitch of your business model and indicate that if the relationship works out, you will be a great source of repeat business. For contractors it can sometimes be feast or famine, so having a client with a steady stream of work is a major selling point.



You could say something like the following:

"I'm a Residential Redeveloper, which means I purchase homes below market value, fix them up, and resell them. I have a large marketing funnel with many lead sources that bring in a large number of potential investment deals each month and I'm looking to do ___ rehabs over the next year."

Next, you'll work in a few things to further show them that you are a professional and it's in both your best interests to work together.

- "I have a proven system and Scope of Work that can save us both time and work."

This shows them that you are experienced and aren't "figuring things out" as you go. Explain to them that you know the types of materials you like to use on each project, down to the item numbers at the store, and that you have thorough notes to eliminate change orders and the headaches of re-work.

- "I am not a retail client and won't waste your time."

Most contractors are used to dealing with retail clients who are uncertain about what they want, requiring the contractor to do some handholding along the way, and who change their mind often. You should also make it clear that you are expecting wholesale prices and not retail prices since you can potentially offer them a large volume of steady work.

- "I have a large network of professional investors and can bring you additional business."

This lets the contractor know that you aren't afraid to refer them out to others you know in the industry, which means more business for them.

- "I love to pay contractors when work is completed."

This verbiage may seem strange, but you are doing two things when saying this. Number one, you are letting them know that you aren't stingy and won't try to avoid paying them. No one likes to fight to get paid for work they have done. And number two you are explaining to them subtly that you like to pay when work is complete and done right!

Close by asking them **"Would you like to make money in my system?"** This might seem like a leading question, and it is. You are further reiterating that they are going to make money working with you, and in your system for redeveloping homes. It's an enrolling question that works.





STEP 3: GET ACCURATE BIDS

Now that you have a good selection of three to five quality contractors, it's time to get bids on your project. One thing that a lot of leading real estate investors suggest is putting together a bidding process and package that you require contractors to go through to bid on the job. Their compliance to your process is an early indicator of whether or not they will fit well into your system.

The bidding process and package may look something like the following.

Scope of work, a quote itemization form, and bidding instructions.

1) Put together a bid packet for contractors to submit their bids to you. Include the following in your bid packet:

- **Detailed Scope of Work:** It's important to include all the work notes and things that you want done during the project, including the materials that you want to use. You can expect that anything not included in the Scope of Work will cost you extra to add in after the contract is signed.
- **Itemized Bid Sheet:** It's important to have a standard itemized bid form for each project so it's easier to compare the bids you receive for a project in a more apples-to-apples way. You don't want one contractor giving you a flat fee for the project and the others breaking it all down. You want to see each part of the scope of work broken out.

- **Bid Instructions Form:** In the bid instructions you want to include all the instructions for how they will submit their bid, including how you want the bid itemized and any additional paperwork you want submitted, such as proof of insurance and their license number for verification.

- **Credibility Kit:** If you didn't already send them a credibility kit about your business, and how you like to work with contractors, you can attach it to your bid packet.

2) **Send the contractor instructions on where to go and how to get into the property including the lock box key. Inform them that they will find a bid packet in the house and that they can go through the home, review the Scope of Work, and then submit their bid to you.**

3) **Once you've received the bids, compare them, while also keeping in mind their other attributes.**

- Are they licensed?
- Are they insured?
- Is their crew large enough for the job?
- Will they clean up the jobsite well?
- Do they have good communication skills?
- Were their referrals good?
- Did they follow your bid instructions well?
- Is their bid competitive?

4) **Sometimes it's helpful to come up with a ranking system on a scale of 1-10 for each of the categories that are important to you.**

Now that you've received all your bids and compared them, select the best one for your project and contact them to let them know that you'd like to move forward. Set a date to meet at the property with them, and any major subcontractors that they'll be using, to walk through the house, go through the Scope of Work together, and get the paperwork signed.

Pro Tip: Keep in mind that you can hire someone based on price or based on cost. Price is the upfront amount you are going to pay for the work based on the bid. The cost is the total you will end up paying in the end including the time, money, and frustrations of dealing with a contractor that you don't work well with. A lot of investors focus on hiring a contractor based on them having the lowest priced bid, but soon find out the true cost of working with that contractor. Sometimes it's better to go with the contractor who is a little higher priced, but with whom you have a good rapport, like their work ethic/professionalism, and their ability to follow instructions.

It's also important to contact the other contractors to let them know that they won't be getting the job. Having a good vetting system and having them ranked will also help you explain why they didn't get the job if they want to know. Keep their contact information, ranking, and bid in your Leadflow account for future reference.





STEP 4: GET PAPERWORK SIGNED

You'll want to have a project kick off meeting where you will walk through the house with the contractor and subcontractors to make sure that everyone is on the same page. At this point you will get your six critical documents signed and initialed.

There are six critical documents that you'll want to get signed over the course of the project. Five in the beginning and one at the end. Ultimately these documents are designed to protect you and the contractor, as well as help further vet the contractor you've chosen. If they have issues with signing any of the following documents, they may not be the right contractor to work with.

HERE ARE THE SIX CRITICAL DOCUMENTS YOU SHOULD GET SIGNED

1) INDEPENDENT CONTRACTOR AGREEMENT

This is the document that sets the tone and structure of your business relationship and indicates how things are to be handled and by whom. Most importantly, it also states that they are independent of you and are NOT an employee of your company.

2) FINAL SCOPE OF WORK

This is one of the most important documents you will put together for each project you take on. It outlines all the work that is to be done and the items that are to be used during the course of the project. If you missed putting something on this document contractors can charge you for, what are called, change orders or additional work to be done outside of your original agreement. The Final Scope of Work must be initialed and signed by the contractor verifying that they have seen and approve it.

3) PAYMENT SCHEDULE

This document states what they have to get done to get paid and how payment will work.

4) INSURANCE INDEMNIFICATION AGREEMENT

This one page document states the types of insurance they have to have and, attached to that, is an insurance certification. This document must be signed to protect you from any additional liability that may result from jobsite accidents.

5) W-9

This document states that they are contracting with you and are responsible for paying taxes on the money you pay them. It protects you from having to pay taxes on money you have paid to independent

contractors if they don't pay taxes to the IRS on that money.

6) FINAL & UNCONDITIONAL LIEN WAIVER

This document is signed at the end of the job that says that they have been paid in full and that you are fully satisfied with the work. Do NOT sign off on this document and get final payment to the contractor without having the final Certificate of Occupancy from your local government agency, which states that the property is up to code and suitable for occupancy. After you've got these documents signed, make sure you keep copies of them in a safe place. It's recommended that you keep a hard copy of them as well as an electronic one in your Leadflow account in case you run into any issues during the process.

CONCLUSION

Finding and hiring contractors can be an intimidating part of the Real Estate Investing Lifecycle, but if you follow the right system, you'll find great contractors that make the process a lot simpler and will provide you quality work over the life of your business relationship.

Make sure you start the process of finding good contractors early as you want to be prepared to move fast once you get a property under contract.



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