

Module 6 – Managing the Renovation

Managing the renovation is the second most important part of making a deal profitable. The most important part is getting the ARV right because that's where it all starts. But the renovation is really the second most important part of the whole house flipping process – largely because it's typically the second-largest expense but the one with most variables.

When you're getting into bigger renovations, which includes renovations of \$50,000 and higher, the renovation is a very significant portion of your overall costs, second only to the price of the property in most cases. Any renovation less than \$50,000 is a lighter renovation. For example, a cleanup would be in the range of \$20,000 or less. But when you're getting into major rehabs, \$50,000 and over – or maybe even \$100,000 or more – there is more room for error, more room for price discrepancies, and more room to underestimate mistakes.

Regardless, it's really important that you understand how the process works and you learn how to manage that process tightly.

You DON'T Need to Know it All

Managing the renovation doesn't necessarily mean you have to know every trade inside and out and become an expert plumber, electrician, insulation contractor, engineer, or architect. The idea is to understand how all those different trades work, knowing and having some concept of how they all fit into the bigger picture.

I would never expect anyone to look at a boiler, fire it up and if it's not turning on, to figure out why it's not turning on. Over time, you'll gain experience and you will learn things every day at your rehab, but you're just not going to learn by doing research on your own. The idea is to really have good subcontractors that you can rely on, ones that can give you accurate pricing and ones that can do their job on time.

So what we're really teaching here is how to *manage* the rehab process. Even if you're not directly managing the project as the general contractor, you still have to understand how the overall project works. In this module, we'll also talk about different ways of whether you manage a project, do it yourself, hire a GC, or have a project manager.

Setting the Budget

Being able to determine the renovation budget is critical to determining what you're going to offer on a property. If you don't set the budget correctly and you base your offer on a budget that is unrealistic, you'll have a hard time making money on the house flip. Now does that mean we're going to get this perfect every time? Absolutely not. Have I been off by \$5,000, \$10,000, \$15,000 \$20,000 in budgets? I have. But the thing is you need to learn from your experiences, so that you don't repeat some of those mistakes.

When dealing with setting a budget, we use what's known as the budget repair form or cost of repair estimate (CORE). And that's just basically a one-sided form, 1 to 25 lists of different things for you to evaluate as you walk through that property in a short period of time to estimate your cost of repairs. That first walkthrough is going to be your checklist. That's going to tell you to look at the roof, look at the windows, look at the siding, look at the soffits, look at the fascias, look at the chimney, look at the landscape, and look at the decks to help make your own evaluation of the condition of those things and whether you think they need repairs.

Now a lot of these improvements are self-evident. You can look at a roof and determine that it's pretty bad and most likely that it's going to need to be replaced. Or you can look at a roof and say, *"Nope, it looks fairly new. It's in great shape."* Or it could be a question mark and it could be an unknown. Or it could be it looks pretty good, but maybe you need a professional opinion.

So by doing a walkthrough and checking off those things – and there is some unit pricing next to some of these items to give you a rough idea what things will cost – you're able to evaluate quickly what those costs of repairs are going to be. And when you decide on renovation costs, you should put in an X factor of 10 to 20%, especially when you're new and you're not sure if you've got some things right or wrong. So, for instance, if you set a budget of \$50,000, you should base your offer on \$60,000.

When you go on your walkthrough with your GC or whoever, take notes, share with him your sheet that you use. Maybe he has one that can be even more detailed. You can combine the two and create your own style.

As it's been written many times in earlier modules, building relationships is such an essential part of success. This is where a good team member is going to really help your business grow. Or a bad team member could hurt you substantially and get you into a deal that ends up costing you a lot of money. We don't want that to happen. So once you build trust, you're going to find it's going to go a long way with the particular people that you're doing business with.

Understanding the process of the rehab and how prices are arrived at will certainly help you to estimate things after your first time. I've been doing this full-time for five years now, and I still don't get it perfect every time. Just the other day we were budgeting around \$1,800 for electrical, and it was

more like \$3,200 because of a few things that we just quite honestly missed. But every time we get better at it, and we refine that process.

So start to create relationships with some contractors and start to do walkthroughs with them. And when the time comes, talk to them about holding the subcontractors accountable for their pricing. Sometimes they'll give a price and they'll come back with a higher price, and you need to hold your ground in the sense that you tell them, *"Well no. We talked about it being \$3,000. There's not anything new here that you didn't expect."* You don't want this to happen.

Also gain an understanding that if something unforeseen happens or the contractor comes across something that no one picked up on – the walls were taken down, or something was exposed after the renovations starts – then don't worry; just work with them. You're just going to have to work with them and hope that they're fair with you and they don't charge you too much more for the fix than what you originally planned on paying.

It's important to be more proactive with this as opposed to being reactive. So anytime you're talking to your subcontractors or getting quotes, present scenarios for them. Say something like this, *"Can you give me some examples that may cause this price to go up?"* For instance, if they give you a price and they say this includes everything I would usually say, *"It's important to me that this number stays true. Would there be anything that would cause this number to go UP?"*

What you're getting them to do is think. They may say, *"Hmm, maybe I need to think twice about this. Maybe I need to dig a little deeper. Maybe I need to test things more."* Or they're going to say, *"Nope. I've included all new piping, all new plumbing. I'm ripping out all the old. We know we're doing 2 ½ bathrooms. We know we're doing a kitchen. Unless you add another bathroom, unless you add something else comes up, this is my price."* This is what you want to hear and you'll have confidence that as soon as you get that in a contract, you'll know that that price is going to be firm.

Or they might say, *"Well, we're trying to keep the numbers down for you as you wanted us to do on this project. Everything we looked at appears to be decent. The drains look good. The pipes look good. Everything seems to be pretty good. This \$3,000 price is something that we should be able to stick to but until we get water turned on in this house and are really able to test everything out, I can't guarantee that, and we may have to adjust some things as they come up."* So knowing that and understanding that and then you can say, *"Well okay. Give me an example of something might not work the way you expect it to."* In this scenario, you start getting them to think about their pricing a little bit more. In this case, they may say, *"Okay here's the price. It's \$3,000 and if this goes wrong and this goes wrong and this goes wrong then we could be looking at \$5,000."* In this case, it doesn't become a complete shocker to you later down the road. And it also allows you to budget \$5,000 in your cost of repairs so that you can use that number as opposed to the \$3,000. That way you're not buying something and shortchanging yourself. And knowing this may change how much you are willing to pay for the house. If the renovation is going to be more money, you'll obviously want to get the property for less money.

Finding the Right Contractor

Finding the right contractor is something that evolves. It could be perfect from day one or it may take a while. Some things that might work for me may not necessarily work for you or vice versa. But the idea is the more flips you do, the more you're going to be able to know your contractor. Getting this understanding could just be through conversation. It could be through visiting their job sites and checking out their jobs, calling their references. You could be meeting them at networking meetings, REIA meetings. You could be posting an ad on Craigslist or Angie's list or any other ways of meeting and networking.

So again, the more you get to know some of the contractors, the more you'll start to get an understanding of who you feel is going to work out and who won't. And for others you may just get a sense about them and say, *"You know there's something about this guy...I just don't know. I don't think it would work out."* Sometimes just go with your instincts because I've done that before where I've hired someone but I just got that feeling like, *"Okay I don't know, I'm just not feeling good about it."* And my instincts are usually right. So I would say it doesn't mean you're always going to be right but listen to that inner voice when in doubt. That feeling is usually going to tell you who's going to work out better for you in the long run.

It's important to understand the difference between a general contractor and a subcontractor. In a perfect world, hiring a general contractor is going to make life easier because you've got one guy managing all the subcontractors. Whereas if you are acting as a general contractor, even though you're not a licensed general contractor, and you're acting more as the project manager or you're controlling and managing the project, you'll have far more work to do.

When Contractors Mess Up

When a contractor messes up or continually messes up, I always look at it as how firing him will affect my bottom line. So I always try to make good economic decisions even though I feel like throwing him off the job. I always look at the bottom line and try to base my decisions on that. It's not based on emotion; it is based on dollars and cents.

The more contractors you screen, the more contractors you talk to, the better. This is just a feeling-out period to decide who you're going to do business with and who you may not do business with. This is why effective communication is very important. We've talked about communication a few times, because when you're trying to get started in this business, how you communicate with your team members is the key to team success in flipping. Most contractors don't want to spend time walking through houses that you may get. Remember that they're only making money when they're in the field working. And effectively communicating with them and explaining to them what you're doing and how it can benefit them in the long run is super important.

Finding a newer contractor who's trying to establish himself or get more business is a good way to go. Personally, I like the young go-getter contractors. That could be a perfect win-win situation for you because maybe he has time and maybe he's only working a few days a week on smaller jobs, but he's trying to build relationships and grow his business himself. These kinds of contractors are one example of a good type of contractor to partner with.

You could also find somebody that has a larger business; perhaps he's not the guy that swings the hammer anymore but he has several guys working for him so he has the time to walk with you, work with you, and spend the time with you doing walkthroughs.

Either way, it's important to establish and communicate with them and let them know what your business model is and how you operate. Are some guys going to listen to you and not want to be involved? Absolutely. And that's fine. Then you move on to the next one until you find someone who's open enough to work with you and assist you in putting together proposals and estimates before you start your first rehab. So that's really just a product of communicating, getting proposals, and eventually hiring one of them when you get your first flip going.

So communicating your goals personally regarding what your company is trying to do is vitally important. If you tell a contractor you want to flip one house this year or you want to flip two houses or five houses this year, just be open and honest about your goals. Share with the contractor where you're at, where you want to go, and how they can be part of your team. This kind of open and honest communication goes a long way.

And make sure you communicate. It's good to keep the lines of communications open by always talking with your contractors – specifically when you're hiring them. If there is a problem, you'll want to know about it right away. If they come across something that they didn't foresee and they're worried about charging you \$1,000 to fix something that's gone wrong, tell them to call you. This all comes down to being able to effectively communicate with them to let them know if something does come up that's not part of the scope of work, then they need to do the right thing and fix it.

Questions to Ask Your Contractor

Some of the questions to ask contractors are extremely important questions, and you need to ask them. Some questions *include* "Are you licensed?" Maybe ask for a copy of their license. Make sure their licenses are up to date. "Do you have insurance? What type of insurance do you have? How much coverage do you have? How long have you been doing business in this area? How long have you been running your own crew?" You'll find out if they're a one-man show or if they've got 20 guys working for them. "How many guys do you have on your crew?" And that doesn't mean there's anything wrong with the one-man crew and it doesn't mean that a 20-man crew company is going to be more money. It's all relative to how they run and operate their business. If the contractor has an office and he's got 20 people working for him, that doesn't necessarily mean he's going to be the right fit. The guy who works

out of his house is not necessarily going to be more competitive or better. You need to interview them and find out for yourself. You may find a small project that a one-man crew works perfectly for. You may find that the guy that employs 20 people may be more competitive. A guy that's trying to charge you \$50 an hour may cost more than a guy that has a big crew that he's maybe paying \$15 or \$20 an hour to do the same work.

You also want to ask them if they can provide you with a list of references. Even ask them if they have any projects that are going on and ask to visit. See how they're working. See who shows up at the job. These are things you can do while you have the time to do them and as you're going through what I call the interview process.

You'll want to ask them if they will be using subcontractors on this project. Most GCs will use subcontractors. I haven't hired anyone that's been large enough to have an employee that's a staff plumber or a staff electrician. Most general contractors will have people that work for them – but those will be the guys that are hanging the windows, putting the roof on, doing the kitchen cabinets, and trimming the doors. They sub out the electrical and plumbing and other trades as well. That's pretty much in most cases what you're going to find.

Other questions to ask include *"Do you give written warranties? How long are these warranties?"* I haven't actually requested or had a written warranty from any of my GCs. We're at the point where if they do their work and something fails, they go back and fix it. Now if you're hiring a guy for the first time, you ask, *"If you're doing all new, what happens if something goes wrong?"* He says, *"Oh, well we're going to go back and fix it."* So maybe you just write that into your contract just to cover yourself in case something goes wrong during the project. If you write it in there, it doesn't necessarily have to be written up in the terms of a warranty – but in a sense that if anything that goes wrong during the time of construction they'll come back and fix it.

Some other questions that may not be super important but you should consider asking include *"Is your business a corporation or are you a sole proprietor?"* That's just going to tell you about their business background, a sense of how they're running their business. You also may want to ask them, *"Where is your office address?"* If they work other house, that's fine too, but if they have offices, offer to visit. Once there, you'll see their office and get a sense as to how things run internally.

You also will want to ask *"Have you ever had disciplinary action filed against you?"* This is a somewhat personal question, but certainly you have the right to ask it. Another important question is *"Have you ever declared bankruptcy?"* That's really going to be up to you whether you feel comfortable asking those questions. I wouldn't start off an interview by asking questions like that, but they are things to consider. If you ask all this kind of stuff up front, you're less likely to be surprised by anything later.

Another good question is *"What is the most complicated job you have done?"* That's good to know because you get to understand the complexity of what they can do. They might tell you, *"Oh we*

did this custom 10,000 square foot \$4 million house in Nantucket.” Your response will be, “Oh, so I guess doing rehabs for me would be fairly easy because obviously we’re not doing \$4 million houses.”

Another question is *“How often do you communicate with your customers?”* That’s a good one because it’s an indicator of how they going to communicate with you. They may say, *“I’ll call you daily and tell you what we’ve done. I can call you weekly. We can do a job site visit each week.”* All of these are good answers, but the questions let you know ahead of time, and you’re getting an understanding of his professionalism and how he’s updating you on the process of a rehab.

You could be doing a rehab that’s 30 or 40 minutes away and you don’t want to drive there every day, so you might suggest, *“Listen, I don’t want to be driving out there every day. As you finish things, can you take some pictures and send them to me online so I can look at them and see the work that you’re doing?”* And again, that’s just effective communication like we talked about earlier. *“And if there’s a problem, can we walk through and review the job?”* I don’t think any contractor would have a problem with you doing that; it’s just a matter of whether you ask them. And that way you can see some of his projects that are going on and get a good sense as to what they’re all about.

Some more questions you might want to ask are some of the following. *“Do you clean up your job site daily?”* As crazy as that sounds, I’ve walked in some of my job sites at the end of the day and it’s been a total mess. And I’d pick up the phone and call my guy and he’d be like blaming the sub or blaming this one. But that’s why I hired the guy so I don’t have to walk in and find these surprises. I don’t want stuff all over the yard. I don’t want this stuff all over the inside. I want the job site cleaned up because first of all a messy job site is where accidents can happen and people can get hurt. You don’t want to be in a situation with people getting hurt on your job.

So a better way to ask this might be: *“What do you do at the end of the day on every job? Do you clean it up?”* And then they may say yes or, *“We kind of deal with that as we go.”* And then you might say, *“Well, would it be an issue if I wanted my job sites cleaned up at the end of every day?”*

Some other important questions include *“How many projects do you have going on right now?”* You’re able to gauge if he says, *“I’ve got two small ones and one big one going on.”* So the next question would be, *“Well how many jobs can you normally handle at one time?”* If he says he wants to do your job and he’s already got three going on, then you might ask the question, *“Well can you handle my job at the same time as those other three jobs?”* Because if it’s a three- or four- or six-week job for you, you don’t want your jobs taking 8, 12 or 16 weeks because he’s got other jobs going on. And you might not think of it at the time, but that is super important. When you hire someone, you want to know when they could start and when they can finish – and all you care about is your job. If he commits to doing your job in six weeks, then you need to hold him accountable for doing so.

Asking all these questions early on and understanding how they work will help you determine who the right contractor is to hire.

The Scope of Work

Now you're at that stage where you're hiring the contractors and lining them up to do the work, it's time to prepare the scope of work. And this is something that can be a combination of what you've prepared or a combination of what your contractor and you have prepared. At the end of the day you set the scope of work, regardless of whether you're dealing with the subcontractors or hiring a GC. If you are acting as GC, then each of the subcontractors is going to have a separate scope of work. If it's a GC model, you're going to have one scope of work and then within that one document, there is going to be a description of what's being done for electrical, what's being done for plumbing, as well as each part of the job done by each of the subs.

The scope of work is your understanding between the two parties of everything that's supposed to get done and at the price that is quoted. And it's very important that we get that scope of work as close as we possibly can, so that when we budget \$50,000 for a project that we come in as close to that \$50,000 as humanly possible. And that's really the idea of the scope of work. I've seen other real estate investors tell me, *"Oh this contractor told me this price and it ended up being \$15,000 to \$30,000 or more. And I thought he was doing this and I thought he was doing that and he said he wasn't."* And I'll say, *"Let me see your contract."* And unfortunately, the new real estate investor typically comes back with; *"Well we really didn't write one up. He just said what the total job price was, and this is what he was doing."* This is a perfect example of why you need a scope of work.

Let's say your understanding was that the general contractor was replacing every single door in the house, but his impression was to take the old ones out and paint them. Unless this is outlined in the scope of work, who is to say what the right answer is? Regardless, that's a serious problem. Now it's your word against his word and that's just not a good position to be in.

So this is the reason why you get that scope of work completed. And with the scope of work in hand, being able to say, *"Listen, I'm not a contractor. This is what I'm seeing visually and what I think needs to be done. Please feel free to make suggestions or add on to this what I may have missed or what you think we need to do."* And then by combining those points and putting it in a clear definite description of what's being done, when and for how much, then your life will be a lot easier . . . and your flip will go far smoother.

Some other things you'll want to consider in your contractor's package is a contractor agreement. This is simply an agreement stating what he agrees to do and what could happen if he doesn't do what he says. There are agreements that are 20 pages long. You don't really need them. Any contractor that reads them is going to freak out and probably not going to want to sign it anyway.

So just get a simple independent contractor agreement that's one or two pages long. And within that agreement, you'll also need to put a draw schedule, which is nothing more than an agreement on how he's going to be paid over the course of the job.

Pay in Thirds

Paying your GC is a very important part of the agreement. Our business has evolved to where we always do a third, a third, and a third. It's easy, and we don't have to pay every single week – giving us less to manage overall.

One thing I want to emphasize here is the importance of that last third. You always want to be paying behind in the sense that you want the contractor to be ahead of work completed. That way, you're never in a spot where if something went wrong you've already paid him and getting that problem fixed will be more of a challenge.

What I like about the third, third, and third is the last payment doesn't get paid until the job is complete. That way, it's in his best interest to get that job fully completed because you're withholding 33% of his money. That's one of the many reasons why I like that concept a third, third, and a third.

If you're working with a contractor that you don't know, you've got to be more careful when it comes to pay. If it's a contractor that is in your BNI group, and he's done work for 10 people in the group, chances are you're going to feel a little bit more comfortable in giving him a deposit as opposed to somebody you may have found on Angie's list.

So the scope of work is really created between you, the general contractor, and the subcontractors writing a very detailed description of what they plan on doing. And you may do it all first and then give it to them and see if they need to add to it and elaborate on it more specifically. It's just a combination of those two so that in the end, you have a scope of work that's part of your contract with a timeline attached to it.

How to Handle the Timeline

With the scope of work and a timeline, there are a couple of different ways you can handle this. If you are hiring all the subcontractors yourself, you should meet with all the subcontractors and go over the process and the schedule of repairs so that everybody has an understanding of how the project is going to unfold. This way, the plumber sees it, the electrician sees it; they all see it and they all know when they need to be done by specific dates. If they're not on schedule, they know full well that they're going to mess up the insulation guys or the sheetrock guy or what have you.

So by everybody seeing that schedule, they fully understand that everybody has their part clearly lined up and what their role is in getting the job done on the time set forth in the schedule.

Bear in mind that starting with the exterior will depend on the time of the year and largely depend on the weather. If it's sub-zero and there's two feet of snow on the roof, chances are your guys aren't going to want to start roofing.

The reason why I like to start on the outside is you get that curb appeal done right away and now you might start to create a little bit of attention to the property and you may even get some passers-by interested as well. Whether you can do this is going to depend on timing and on the contractor you've hired. But when you can, start on the outside of the house and work your way inside.

You want to set the schedule with dates with all your subcontractors. And tell them you're going to expect them all to meet those dates because one sub could throw off the entire schedule.

Let's just say for example that you didn't hear about an issue and the insulation crew showed up on Monday and insulated the whole house before the framing or the electrical inspection was done. That would put you in a pretty bad predicament right? Believe me, it's happened.

What's going to happen is you probably won't get your electrical inspector to sign off on the inspection because he can't view the wires. So then it becomes a matter of who is responsible for taking all the insulation down and reinstalling it. As you can see, one mistake upstream quickly creates a number of other issues downstream.

In this instance, even if you didn't know about it and you weren't paying attention, it is ultimately your responsibility. Bad things can happen if you're not paying attention. And this underscores the importance of having a schedule. Have everybody see it and communicate openly about it. If everybody understands their role, there are no excuses.

You Are Running the Show

You've got to remember you're the one that's running things. You've got to be the one who's going to be in control. So have your schedule in front of you and make sure everything is getting done on time and everyone is pulling their weight. You know when everyone is supposed to be completed. If for whatever reason, you cannot make it to the jobsite that particular day, pick up the phone and call your electrician to remind him if you need to. You might say, *"Just reminding you we've got our electrical inspection tomorrow and once we get that we have our insulation going in on Monday."* He might then have to say, *"Oh geez, I was going to call you. I got backed up. I'm not going to be finished."*

Now you're not going to like his answer and you've got to come up with a plan B. But by being proactive, it's far better than finding out on Tuesday that the insulation was installed and the inspector showed up and failed you.

I've always tried to have the attitude whenever something goes wrong in my business, as much as I want to blame others, what I do is I try to learn from it and say, *"Okay, I'm the captain of my ship. When something goes wrong ultimately I'm responsible."*

But when something goes wrong, make sure you improve upon it, so the next time it doesn't happen. Learn from it, fix it, and move on.

Change Order Forms

This is an important one because no changes can be made without change order forms. Am I perfect at this? No, of course not. For instance, we had a project going on in Carver, Massachusetts, and I was over there one day and I noticed some things. I was just walking through, and I started asking some questions of my contractor. I saw something that needed to be fixed, and it was not part of the original scope of work. I could've had my contractor put it in writing, send me the scope of work, and get it signed. But we're still small enough so I can tell him to take care of it. This contractor has done enough work for me, and I knew what it was going to cost roughly. In cases like this, I'm not worried about him gouging me on the price because he's done a lot of work for me.

This type of relationship does take a while to build and when it does, is obviously extremely helpful.

But if this were my first job and this were my first go around with him, I would have him write up a more formal change order form so we could keep track of it. So having a GC you trust is very important, and it saves you time once you establish a level of trust and understanding. Now if you've done a dozen jobs with him, you're not even going to ask the question because you know he's going to be fair. And then if the price comes back ridiculously high you call him on it.

But it's not a bad practice to get formalized change orders. In cases of changes that are not in the scope of work, you might say to your contractor, *"Listen, here's the scope of work. Here's what we agreed on paying. I just want to be clear that if something changes with you or any of your subs that you give me a change order so we can discuss what it's going to cost."* He may pick up the phone and call you and say, *"Listen, we've got an issue that we didn't see. There was some wire spliced up in the attic. We've got to put a junction box in there. It's not a major deal. I just wanted to let you know."* That's fine as well, because you don't want to have him go back to the office, type up a change order, and email it to you, hoping you get it immediately. If you don't get the email till the next day, it wastes two days going for a physical signed change order.

Many bigger companies may do that, but when you're first starting, you don't want to slow things down for the sake of getting a signed change order. You can say, *"How much is this going to cost me?"* And your contractor is going to say, *"Well we've just got to put a junction box in and it's going to*

take the electrician 20 minutes. It's going to be 30 bucks." In that case, you do it. And other times you might give your contractor the ability to change any order under \$100, which is what we do now.

So those are things that you discuss and communicate with your contractor. As you talk to him, you paint situations and scenarios so that everybody's on the same page. But you don't want to be hit up with \$4,000 in change orders out of the blue.

Who Should Manage the Project?

So now this comes down to decision time. You have to start thinking about what is it that you are going to do with regard to a general contractor. Who should manage this project? Is it going to be you?

When making a decision like this, it's really going to come down to your comfort level. And that comfort level will really be the determining factor if you're going to do it or you're going to choose to go with a general contractor.

Let's say you're not working and you have more time. In that case, you would consider doing the GC part. But if you have a full-time job and you're trying to manage two or three rehabs, I can tell you right now, don't bother – because you'll end up having a nervous breakdown.

Now if you have a full-time job and you've got one rehab a mile down the street from you, the work's not too extensive and just requires some plumbing work, some electrical work, and a little bit of finish work, then I would say you could probably manage that one. In that case, there's no reason to get a GC involved – plus you gain great experience doing it.

So again only you can determine that. In most cases, you'll be better off letting them manage it all. You'll be managing the GC and no matter what, you will be intricately involved. Plus, if you don't get to fully understand how the process works, then you're never going to be able to manage the GC and you'll never know whether he's doing a good job.

So ultimately you're the one in control regardless of whether you're hiring a GC or hiring the subcontractors.

Project Managers

In some cases I've used something called project managers. This is a little bit different than what a GC is. How it works is rather simple.

Let's say that you have a carpenter on the job as a hands-on guy, and he's doing all the carpentry work like installing windows, putting in the kitchen, replacing the doors, and installing baseboards. And let's just say it's a four- or six-week project.

In cases like this, I've talked to a few of my carpenters and said, *"Hey listen, would you be interested in managing the project?"* First off, I want to know what his credentials are and if he knows how to do the general contracting. Maybe he's done big projects in the past, so his experience would allow him to effectively manage this project.

But he was hired to do some of the carpentry work and other things on the job, so I said, *"Would you be interested in it, if I were to pay you a project management fee to oversee things? You're there anyway and you're going to be there for the next four to six weeks. Would you be up for managing the plumber, the electrician, the sheetrock guys, and the insulation guys and all that? I'll pay you an additional fee above and beyond what I'm paying you now."*

All you have to do is ask in most cases. In this case, we put together a little thing where he got an additional \$2,000 which was great for him. Of course, some guys might think that's a little bit of money; some guys might think that's a lot of money. That really is going to depend on the person you're hiring and whether he feels it's worth his time. In that particular case, \$2,000 was what we agreed and he was very happy with that. He was getting an extra \$400 a week. He was there anyway, and he had no problem getting extra money to do a little bit of managing and spend some more time to make that money. And then we also put in a kicker. It stated that if we met the time frames and we met certain budgets, we would talk about an additional bonus. He eventually got that as well, so he was very excited.

Project managers might be a great solution, especially if it's a smaller project. Think outside the box a little bit and don't just think in the terms of a general contractor to manage your project.

The GC

And of course there's the full-fledged general contractor route as well. This is the guy that's managing all the subs for a percentage of the total cost. He's got his list of subcontractors and is going to price out the job in its entirety, with you having one point of contact. In this case, you don't need to deal with any of the subs. You just call your contractor and get fixed whatever you see is wrong and don't even deal with the subs at all.

Having one contractor is great if you can get pricing that always fits within the model. But the best thing to do is talk with the GC, explain what it is that you do, how you do it, and see if he's receptive to working with investors.

At the end of the day, everybody has to win. You want a win-win situation for yourself. You want a win-win situation for your contractor. You want a win-win situation for your subcontractors. And you're only going to find this out through talking with different folks out there, seeing what their ability is to work with you with your model and getting their reaction. Some will be interested, some won't. Pick the ones that are, try them out, and always keep an eye out for other potential GCs as well.