



# Top 5 Disastrous Mistakes Home Owners Make When Selecting a Custom Home Builder

## Mistake #1: Insurance

It is critical that every person entering your home's job site is properly insured. This includes but is not limited to: your general contractor and his employees, subcontractors, design consultants, and material suppliers. The general contractor is responsible to track the insurance of each subcontractor and vendor. This includes regular audits of insurance certificates to ensure that they are in good-standing and that their coverage limits and endorsements are up to standard. Your general contractor should not authorize payment to any subcontractor until their insurance is audited in this fashion. Many "fly-by-night" general contractors conveniently choose to ignore this step. When asked about it, they may give a vague response, or claim that it is too burdensome to track. This is a red flag! The jobsite can be a very dangerous place, and insurance could be the only cushion between a hefty lawsuit and your hard-earned bank account.

There are two basic types of insurance that all parties should have before entering your job site. These include workman's compensation insurance and commercial general liability insurance (CGL). State law requires every licensed contractor to carry both types of insurance unless the contracting entity consists of one employee or less, at which time workman's compensation is not required. The state also dictates coverage minimums. The minimum required coverage for CGL insurance in the State of Utah is \$100,000 for each occurrence and \$300,000 aggregate. For high risk trades, coverage limits of \$1,000,000 per occurrence and \$2,000,000 aggregate are typical.

If your general contractor only carries the minimum coverage required by law, you may demand that he carry more. Additional coverage is available to most general contractors and can usually be purchased for a premium. Often times, the additional premium is added to your project's cost, but this is always negotiable. Also, a personal umbrella policy may help to offset low-limit risk associated with your general contractor's policy. You should check with your insurance agent before proceeding.

The general contractor agreement should include a section about insurance. You should request a copy of your general contractor's CGL insurance certificate and workman's compensation certificate (if applicable) upon executing the general contractor agreement. Moreover, you may also want to request a copy of each of the subcontractors' insurance certificates upon execution of their contract agreements.

Perhaps the single most important thing to remember as a home owner is to require that your general contractor name you (or the owner on title of your property) as an "additional insured" on his CGL policy. Without this, your general contractor's insurance may be of no value to you when it comes to paying for claims related to personal injury suffered on your job site.

## Why Sun-Belt Homes?

Sun-Belt Homes is second to none when it comes to insurance management in the home building process. We take every precautionary step to fulfill all insurance requirements. Our clients have the piece of mind knowing that the "T's" are being crossed and the "I's" dotted. We are proud to offer this service to all our clients.

## **Mistake #2: Lien Waivers**

It is critical that your general contractor pay his subcontractors and suppliers during and after your home's construction. If this does not happen you may end up with damaging liens filed against your home from subcontractors or material suppliers claiming that they have not been paid. This could ultimately lead to a forced-sale of your home by a court if the liens cannot be satisfied in a timely fashion.

To avoid this, the payment process is typically monitored by way of "lien waivers". A lien waiver is a formal release given by a subcontractor or material supplier evidencing payment received for work performed or material provided on your home. The lien waiver requirement should be rigidly enforced; no lien waiver, no payment. Be mindful that this pertains to both the final payment and all accompanying progress payments as well. You should ask to see your general contractor's records periodically to ensure that this is being done. You should also ask for a copy of his subcontractor and purchase agreements to make certain that lien-waiver language is included. It is very common for general contractors to ignore this step claiming that it is "over-kill" or unnecessary. This is a major red flag and you should not let him get away with it! The consequences could be devastating to your home and pocket book!

Joint checks are a common supplement to the lien waiver process. A joint check is when the subcontractor's check is made out to two parties, the subcontractor and the vendor/supplier, thereby ensuring that the funds being disbursed by the general contractor reach the parties for whom the funds are intended. Joint checks are typically only issued to trades who have a large vendor/supplier obligation such as a framing subcontractor. However, if you become suspicious that the material suppliers are not being paid on your home, you should demand that your general contractor immediately begin issuing joint checks to his subcontractors. If a subcontractor is unwilling to cooperate with a joint check arrangement, your general contractor should at least require that the subcontractor provide receipted and paid invoices from his suppliers along with his lien waiver prior to being paid.

### **Why Sun-Belt Homes?**

We take great pride in our attention to details such as these. Our systems include a subcontractor welcome packet which is distributed to each subcontractor and material suppliers upon your project's commencement. This welcome packet includes a copy of our standard lien waiver forms. Our subcontractors are well aware that they do not get paid until the appropriate lien waiver is provided. Moreover, as a courtesy we provide copies of these lien waivers to the client on a regular basis.

## **Mistake #3: Buy-Out & Change Orders**

### **BUY OUT**

The contract "Buy-out" or "Purchasing" process is the process by which your project's specifications and scopes of work are fine tuned, bids are gathered and analyzed, subcontracts are awarded, and budgets are finalized. This is the stage whereby the greatest cost savings can be achieved for your home. Surprisingly, it is also the most rushed and neglected stage by most general contractors. The savings here will more than offset any delay caused to your home's construction start date. The purchasing stage sets the framework and foundation for your entire project. The reasons are many.

1) Bid Analysis: When done effectively, the bid analysis process can be a very time consuming but yet financially rewarding endeavor. It entails comparing dozens of variables from multiple subcontractor bids to ensure that your home gets the most bang for its buck. It is very important that your general contractor take the time during this process to get multiple bids for each trade. This can be very cumbersome and your general contractor may gripe claiming that multiple bids are unnecessary. This is a red flag! This single missed step can easily lead to thousands, if not ten's of thousands of dollars of unnecessary cost to your home.

2) Specification & Scope of Work Completion: It is imperative that your home's specifications and scopes of work be completed during the buy-out stage and before going out to bid. If this is not accomplished, your home will potentially be left vulnerable to thousands of lost dollars in change orders. Changes and additional work are kept to a minimum by fully understanding and documenting what you are building before you start.

### **CHANGE ORDERS**

Changes are inherently inefficient, so even if your builder is honest you still pay a premium for changes because they disrupt the flow of work. Some builders and subcontractors bid jobs low, planning to make up the money on their change orders. Many will look closely at your project's contract documents before bidding on your project. If they see a vague scope of work, or incomplete project specifications, they may view your home as a change-order gold mine. This can become a major problem if you have already committed to a contractor with this in mind, which is why it is so important to ensure that the buy-out process is properly executed.

You should ask your builder what type of markups, overhead, and profit he is going to charge you on change orders. It is also important to explain in the contract how changes are going to be handled. Most often, a builder will charge a set margin on top of the costs of the change order. Moreover, every change order should state the affect that it has on your home's budget and schedule.

Do your homework up front. This is your house and your money. Regardless of how good your home builder is, the more you know about the plans, estimates, bids, and subcontractors, the more you will control the process and reduce the amount of overruns. You will find it to be well worth your while.

### **Why Sun-Belt Homes?**

We consider the buy-out stage to be the single-most important stage in which the general contractor has the most control over what your home will ultimately cost to build. Accordingly, we take this step very seriously. We are equipped with the skills and training necessary to effectively scrutinize this process to its fullest extent. As a result, our home building projects consistently have fewer change orders than our competitors.

## **Mistake #4: Documentation & Reporting**

Documentation is perhaps the single most important element in your home's construction but is most often neglected by the general contracting world. One example would include poor subcontractor agreements. Surprisingly, many general contractors do not even execute formal sub-contractor agreements prior to starting work on your home. This has the potential of leaving your home either without a warranty for the work performed, or worse, personally liable for a subcontractor's negligent actions. Still, subcontractor agreements are only one of many important construction documents that your home building contractor should be regularly monitoring.

Below is a list of the critical documents and reports that your general contractor should provide.

On-site Construction Log: This is a daily record describing what happens on your job site, including who showed up, what problems arose, and what was accomplished. Although a daily record keeping may not always be relevant, such should still be the goal. This log is something that many general contractors simply ignore. Consequences for not maintaining this record include a lack of written evidence which could have been used to refute a fraudulent claim, or to address a recurring problem or behavior on your job site. Most importantly, this log could be the only evidence that you have to defend yourself if your project should end up in court.

Weekly Report: Your general contractor should provide a weekly report outlining each week's accomplishments during your home's construction. This report is sometimes accompanied by the "On-site Construction Log" mentioned above. The weekly report should also include pictures of your home when certain milestones are achieved, or at times when additional visual documentation is warranted.

Budget Variance Report: Your contractor should provide an audit of your project's budget at least monthly. This audit need not be overly complex but should include, at a minimum, an up-to-date snap shot of your home's prior budget, current budget, actual expenditures, and variances (if applicable). Many general contractors do not provide this report.

Change Order Log: In the event that a change order is warranted, it should be documented into a well-organized log. This log should be provided to the client on a monthly basis. Many general contractors do not keep such a log. Mass confusion is often the result; with the home owner left in the dark wondering what their home will ultimately cost and when it will be completed.

Specifications: Your general contractor should diligently maintain an updated list of your home's specifications. It is shocking how many general contractors try to wing a project without doing this. The reality is, if a product is not directly stated in the specifications then it is doubtful that you will get what you intended. This can potentially lead to thousands of dollars in lost value to your home's finishes and workmanship as a result of your general contractor and/or his subcontractors "conveniently" forgetting about a promise or verbal commitment made prior.

Project Schedule: It is astounding to see how many general contractors do not use a schedule on their home building projects. The reality is, a schedule can be a very time consuming and challenging document to maintain. However, this should never be an excuse to ignore it! For many home owners, their home's completion time frame is as important if not more important than their home's cost. Can you imagine not keeping a budget? A schedule is no different!

### **Why Sun-Belt Homes?**

Our documentation and reporting systems are second to none. Our clients can sleep at night, from near or afar, with the piece of mind knowing exactly where their home lies in the construction process. Each of the documents and reports mentioned above will be tracked, monitored, and updated religiously by your project manager. Updates are posted to your project's web page every week. You may take advantage of this feature 24-hours a day from the comforts of your own home.

## **Mistake #5: Client/Contractor Communication**

Many home owners who have never built a home do not understand the significance of good communication between the general contractor and home owner during the home building process. Also, most are very surprised when they discover the hundreds of decisions that they will need to make to successfully complete the construction of their home. These challenges can be further compounded when the home owner is living out of town.

There is a language spoken by many people in the construction world called "Vague-ish." It is an interesting language where words and phrases are combined to create vague impressions. Sentences are constructed to avoid any personal responsibility. It is a defensive language used to shield individuals and companies from financial liability. Since almost every problem in construction comes down to who is going to pay for it, and often times there is gray area and several entities to blame, many people in the industry choose to speak this language, or else risk owning the repair bill. As a home owner, try to find a home builder who doesn't speak vague-ish; a home builder who is direct and honest. You should also make sure that all of your communications are direct. If you make a mistake, admit it. Set the tone. Create a setting where you expect total honesty and you live by total honesty.

Decisions related to design and material selections can be extremely difficult and costly if not handled correctly. A good general contractor should act as a liaison between its clients and the design consultants. However, in the real world, this rarely happens. Many home owners are left to make these crucial decisions on their own because their general contractor is either not organized, or does not have the necessary communication skills or systems in place. Often times this leads to a communication "breakdown" reaping havoc on a home's schedule and budget, turning the client's home building experience into a living nightmare.

You should look for a home builder who has good communication skills and systems. Ask about his client reporting techniques and whether or not there will be a designated person for your project of whom you can call with specific questions pertaining to your home's status. Also, ask about your general contractor's efficiency with technology. This should include his proficiency with email and his presence on the internet. The internet is an extremely valuable resource for communicating and reporting. We live in a technologically-driven world and far too many general contractors are not keeping up.

### **Why Sun-Belt Homes?**

Sun-Belt Homes has perfected the communication process between client and contractor by offering unique tools and systems specifically designed for the home building process. You will find that the majority of these tools are not available by our competitors.

These tools include:

Web-Based Client Reporting: Sun-Belt Homes utilizes a web-based client reporting system which allows the client to view the current status of their home 24-hours a day. Upon project commencement, each client is provided his or her own web page along with a username and password. Clients access this web page to view recent pictures of their home, a weekly report outlining the previous week's accomplishments, and to check their home's current budget and schedule status. An email is automatically generated to each client when updates are made to their respective web page. Furthermore, on-line access is also provided to subcontractors to ensure seamless project communication.

College Educated Project Managers: Today's custom home owner is more sophisticated than ever. When considering the investment involved in most custom home projects, we believe that home owners not only prefer but demand a well educated individual to oversee the construction of their home. In response to this growing demand, Sun-Belt Homes employs only college educated project managers with degrees in Construction Management or affiliated fields. Upon your choosing our services, one of our project managers will be assigned specifically to your home to oversee client relations and reporting related to your home's progress. We limit each of our project managers to no more than 3 home building projects at one time. This ensures that you get the personal attention that you expect, and your home gets the TLC that it deserves.

Technological Innovation: Sun-Belt Homes is second to none when it comes to technological innovation in the home building process. This includes our integration of cutting-edge software applications. For budgeting, we use a customized, excel-based software program that enables us to track your home's costs from estimation & bid analysis, through construction, and project close out. We also use scheduling software that utilizes Critical Path Management (CPM) methodology proven to minimize a project's construction duration.

Perhaps our biggest strength is in working with out-of-town clients. Sun-Belt Homes utilizes state-of-the-art web conferencing technology, known as "Webinars". Such technology enables the client and project manager to visually review and discuss plan updates, project status, and design changes from afar. Interestingly, because of our use of technologies such as this, we find that local homeowners prefer our services as well. Both clientele enjoy a successful, hands-off experience.

If you are considering building a new home and are concerned about making a bad decision in selecting a home building contractor, you are not alone! Regardless of who you choose to build your home, we are always available to answer any questions that you may have. Please don't hesitate to call one of our project managers for a FREE consultation about your new home!



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