



## Essentials—The Construction Contract

Our third essential topic is the construction contract. (Absolutely, use a standard form, not something created by the contractor's attorney.)

- A. 3 common types of construction contracts: fixed price, cost plus a percentage, and cost plus a percentage with a guaranteed maximum. You should know the advantages, the disadvantages, and the weasel clauses in each.
- B. Additionally, there are two basic types of payment schedules: stage payments and progress payments. With stage payments you pay a specified sum when the job reaches certain stages (foundations completed, rough plumbing installed, drywall completed, cabinets installed, etc). With progress payments you pay on a regular schedule (usually every two or three weeks) based on the percentage of the job that is completed. (If building an entire house or remodeling more than two rooms, use progress payments.)
- C. Progress payments require that the job be broken up into various line items (grading, foundations, framing, roofing, general labor, tile, etc) and that each of these line items have a budget. Every two weeks you pay on each line item according to the percentage of that task that has been completed. Early in the job you will probably pay only on grading or foundations. Later in the job you will be paying some for tile, some for cabinetry, some for painting, some for general labor, some trash hauling, etc. This is the professional way to make payments, but it means that you need to have a good understanding of what is included in each line item. You may want some help on this.
- D. All contracts should have a detailed time schedule attached and should discuss delays, whether caused by inclement weather, by contractor error, by owner error, or by change orders.
- E. If the contract includes allowances (and it normally will), are the allowances adequate for the quality of material you expect in your project? Can you get samples of the material being considered?

This has been our fourth brief discussion. I hope that you have encountered a few new thoughts and ideas. If so, and if you would like to delve further into these subjects or others, I am available for private consulting on your individual project in the Los Angeles area.

Sincerely,

Jeff Bruce