



10 THINGS CONTRACTORS WON'T TELL YOU

1. License? What License?

With the economy rebounding, homeowners may be more likely to include remodeling projects in their budgets. Spending on home improvements has nearly recovered from the Great Recession, with an estimated \$314 billion spent in 2014, up from a low of \$276.5 billion in 2011, says Kermit Baker of the Joint Center for Housing Studies of Harvard University.

That means more business for good and bad contractors alike. Unfortunately for consumers, telling the two apart isn't always easy.

Most states require some sort of licensing of contractors. But that doesn't mean that everyone calling himself a general contractor has bothered to obtain this credential, experts say. "There are plenty of people out there with a pickup truck and a tape measure," says Paul L. Sullivan, president of the Sullivan Company, a residential contractor in Newton, Mass., and chairman of the National Association of Home Builders (NAHB) Remodelers.

Regulations vary greatly: Some states require only commercial contractors to be licensed, while others mandate licensing for those who work on jobs over a certain dollar value. Local municipalities can also have jurisdiction over licensing. States with the most rigorous requirements include California, New Jersey and Florida, while states on the lax end of the spectrum include Colorado, Missouri and Wyoming. In 2012, unlicensed contractors ranked among the five fastest-growing sources of consumer complaints, according to the Consumer Federation of America (CFA).

Even when dealing with licensed pros, homeowners hiring a contractor should seek referrals from past and current clients, and ask to see the contractor's work, both completed and in progress. "Everyone has their own perspective of what's good," says Tom Pendleton, president and owner of Pendleton Homes & Remodeling in McLean, Va. A client might give a contractor a glowing recommendation because he was a nice guy who got the job done ahead of schedule, when the actual work looks sloppy.

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Another option: Use a service that vets contractors in advance. The website HomeAdvisor, for example, matches homeowners with contractors screened for licensing compliance, past criminal history and other issues. If you settle for a boilerplate contract, your renovation may disappoint you.

2. Our Contract Favors Me

When it's time to sign on the dotted line, most contractors will present homeowners with a boilerplate agreement, experts say. While it's fine to start off with a standard document from the American Institute of Architects or other organization, the contractor should add plenty of detail particular to the job, Pendleton says. At worst, a boilerplate contract with scant detail leaves a contractor too much wiggle room to add expenses or cut corners, and at best it leaves room for misunderstanding. Pendleton goes so far as to include in his contracts the model number and brand of certain materials, such as shower doors, that he plans to use. "The description of the work is so very important," Pendleton says. In just one example, if a contract says only that the job will involve installing a shower, a homeowner might be surprised to find a shower rod instead of a door on the completed project.

Some contracts lay out payment schedules that let the money get way ahead of the work. Throw a lot of money upfront at an unscrupulous contractor, and he has less incentive to show up and do a good job. If possible, it's best to restrict upfront payments to about 30% of the total amount, says Chris Terrill, chief executive of HomeAdvisor. (The actual percentage will vary based on the materials the contractor needs to purchase.) It's also important to withhold the final payment—at least 10% of the total cost—for 30 days after the job is done, just to make sure that everything is working the way it should.

3. I Could Take Your Money and Run

Home improvement and construction complaints ranked second out of the top 10 consumer complaints of 2012, according to a Consumer Federation of America survey of state and local consumer protection agencies. Industry experts say that such scams can run the gamut including doing shoddy work, failing to complete the

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job, and preying on natural disaster victims. And, some scammers simply collect a down payment on a job and disappear.

In 2013, a man calling himself a contractor in Union County, N.J., took nearly \$50,000 from three families. Instead of completing the small projects he was hired to work on, authorities say, the man intentionally damaged his clients' property and disappeared with their cash. "Our understanding is he intended to defraud his victims," says Grace Park, the acting Union County prosecutor. Officials tracked down the rogue contractor, whose case is pending trial after a grand jury indicted him on charges of theft by deception and criminal mischief.

Park says the families might have avoided trouble if they'd checked to see that the man was licensed as a contractor in the state (he wasn't). Not only did the homeowners lose the cash they paid the alleged con man, but they were also out the thousands they had to pay others to fix the extensive damage he caused. A new identity can obscure a poor track record.

4. I See More Churn Than A Butter Factory

Some 30% of contractors go out of business every year, says Terrill of HomeAdvisor. Of these, some simply decide to take down their shingle and join another firm. After all, a contractor could be an excellent craftsman but a not-so-great businessman, Terrill says. Others may fall victim to a poor economy. But plenty of contractors change their name to dodge business problems and irate clients, experts say.

For that reason, some experts say homeowners should seek out contractors who have been in business under the same name for three years, a respectable track record for the industry. The HomeAdvisor site lists how long each professional has been in business under his current name, and some states and local municipalities have websites where you can verify credentials. (Asking for a customer referral for a job that's at least three years old is another option.) Nonpayment liens can restrict a homeowner's freedom.

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5. If I Stiff My Subcontractors, It Could Come Back To Bite You

Homeowners generally pay a single general contractor, who in turn pays the subcontractors, such as roofers and plumbers, who work on a project. If a contractor stiffs a subcontractor, however, the latter can often file a lien—a public notice of a creditor's claim—on the homeowner's house. Contractors can also file liens if the homeowner doesn't pay them the agreed-upon amount.

These liens can effectively block a homeowner from selling or refinancing the property. A homeowner could stonewall the demands of a contractor or subcontractor, but "five years later, he wants to sell his house, and the contractor gets his \$10,000, says Brian Downs, president of Downs & Associates, an insurance firm in Herndon, Va.

6. My Lowball Bid Is A Bad Sign

Homeowners should solicit at least three bids for their remodeling job, experts suggest. But if one bid comes in more than 5% to 10% lower than the others, it's a red flag, says Baker of the Joint Center for Housing Studies. Labor and material costs don't vary that much in any given location, so it's possible that the contractor with the lowest bid has an incorrect or insufficient understanding of the job. "We all pay about the same thing for everything," Pendleton says. "So if someone's a lot cheaper, something's wrong."

Some contractors are cheaper because they don't hire a "leadman," the industry term for an on-site project manager who supervises all the subcontractors, yet that expense that pays for itself many times over in better-quality workmanship and communication, Pendleton says. One job of the leadman is to act as a translator of sorts between the subcontractors and the homeowner, who can cause misunderstandings when using building terminology incorrectly.

Remodeling is "almost like surgery on your home," Terrill says. Just as consumers don't shop for medical surgery on price alone, they shouldn't look for bargains at the expense of quality when it's time to cut open their home.

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7. I Pad My Contract With Surprise Extras

The contractor who gives the lowest bid probably won't honor it in the end, experts say. A contractor could lure the client in with a low bid, but once the job has started, talk the homeowner into upgrading the lesser-quality materials he had budgeted for, or otherwise try to expand the scope of the job. "Some contractors live on extras," Pendleton says.

That said, some extras represent legitimate unforeseen costs that arise during the course of a project. Contractors might have to redo a shoddy job completed by prior workmen, for example. Pendleton recalls a bathroom job where his workers found out workers on the prior remodeling job had papered over a rotting subfloor without telling the homeowners. He tells prospective clients upfront that they should budget an additional 10% of the project cost for unforeseen expenses. Even a little owie could land you in court if your contractor skimps on insurance.

8. You Could Pay Dearly If I'm Not Properly Insured

Professional contractors carry both liability and workman's compensation insurance. Homeowners should ask to see a copy of the contractor's certificate of insurance, a document that should be sent directly to the homeowner from the insurance agent. (That's standard operating procedure, and easy to execute, says Tom Messier, vice president of construction industry services for Mason & Mason Insurance Agency in Whitman, Mass., so no reputable contractor should be put off by the request.)

Some experts advise that homeowners take an extra step and request to have their name added to the contractor's policy as an "additional insured." That ensures the homeowner is notified of any changes in the coverage, and offers the homeowner additional protection.

Homeowners should ask to see proof of insurance regardless of the project size. "It doesn't matter if it's a \$300,000 addition or a \$1,300 window replacement," Messier says. "I may be replacing your kitchen counter, but I could cut my finger off doing it."

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Messier doesn't write liability insurance policies of less than \$1 million, which he thinks is the minimum amount required to protect contractors; the amount of workman's compensation coverage requires varies by state, he notes.

Homeowners should also check their own homeowners' insurance policy to see what kind of coverage it offers for remodeling problems, if any. Some insurance carriers will even cancel policies on those embarking on remodeling projects on the grounds of "increased hazard," says Downs, who helps affected homeowners switch carriers to one that will cover their work.

Homeowners can wind up in serious trouble if the contractor has no insurance. In a worst-case scenario, a subcontractor who got injured on the job could sue the homeowner. While that might be relatively rare, homeowners could still see their homeowners' insurance tapped to cover injuries or damages. It's easier for a bad contractor to skimp on a hard-to-see spot.

9. You May Not Notice When I Cut Corners

Poorly laid tile or paving stones may be easy enough for the layperson to recognize, but other parts of the building process, like plumbing, remain harder to assess. Less reputable contractors will take advantage of their clients' inability to judge the quality of their work, experts say.

Maybe they'll use subpar materials, or paper over structural problems that will take time to fix. Or, the contractor could skimp in places that the homeowner is less likely to inspect. "It's amazing how many things aren't done well in the attic," says Pendleton, who testifies as an expert witness at trials over remodeling disputes. He recalls more than one case where the contractor didn't bother to put in insulation in a corner of the attic that was out of the sightline of the attic door.

When a contractor obtains a building permit from the local jurisdiction that oversees remodeling, that triggers a set of municipal inspections of the project. These inspections should catch flagrant errors—but the work of unlicensed

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contractors falls through the cracks since unlicensed operators don't apply for permits.

One way for homeowners to check on contractor's work is to watch how they treat the home, experts say. Those who are careful not to track dirt into the home, and who keep their tools safely out of reach, are likely to be doing meticulous work elsewhere. Homeowners can also directly supervise at least some of the work and ask a lot of questions, says Terrill of HomeAdvisor. "There are no stupid questions," he says, adding that good craftsmen are proud of their work and usually happy to explain it.

10. If I Come Knocking On Your Door, Don't Answer

Two of Pendleton's former clients, an elderly couple with whom he's stayed in touch, got a knock on their door last spring from a man claiming to be a roof specialist. The man said they had a leak in their roof, and that he could fix it. The couple, ages 92 and 88, were in no position to climb onto the roof themselves, or even go up to the attic, to see if the workman was telling the truth. So the wife called Pendleton, who went up on the roof himself to look around. There was no leak.

Itinerant "workers" like these are often scam artists who approach people's homes offering to do jobs at bargain-basement prices. In reality, if they do the job at all, they're most likely doing shoddy work with low-grade materials, says Susan Grant, director of consumer protection for the Consumer Federation of America: "Never go with someone who just comes to your door, offering their services."

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