



## 4 REASONS: FIXED PRICE VRS COST PLUS CONTRACTORS

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This online download article is from HEARTHSTONE construction, the leader in Custom Mountain Home Construction in the western North Carolina region. This article will help you understand the main differences between how Hearthstone prices a project and how many other Contractors in this area of western North Carolina price their projects, and why you're going to get a better deal from Hearthstone.

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### 1. OVERVIEW: FIXED PRICE VERSUS COST PLUS APPROACHES



**FIXED PRICE CONTRACT:** the General Contractor (GC) provides you, the future homeowner with a fixed cost to build your house, at the start of the project, the day you sign a contract with the Contractor. In other words: the GC is guaranteeing to build your house for a known number in advance. This type of contract is just about non-existent these days. It is also an excellent arrangement for the homeowner.

**COST PLUS CONTRACT:** The GC only offers to build your house based on the Costs that happen to occur during the project, no matter how expensive they may become, PLUS the GC's profit on top of that. This is now the preferred and main way most Builders do business these days, particularly in western North Carolina. This is Not as good for the

homeowner. You're building a house and you don't know for sure what it's going to cost you? Not smart. Don't fall for this approach.

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Hearthstone Construction typically prices its clients' project with a Fixed Price proposal, unless there are too many unknowns. The main reason for "too many unknowns" is skimpy design documents from a "designer", like under 20 sheets. To remove most of these unknowns, you probably need more like 40+/- sheets (24"X36"), from an Architect. This provide more detail so Hearthstone can accurately price features, materials and systems). The key here is in the client having paid an Architect to do a thorough job so that there is plenty of detail, specifications and very few, if any questions. When Hearthstone has lots of detail, they can price your project more precisely. That's why and when they can provide a Fixed Price up front, so that you know what you're going to spend from Day 1. But you can't do that without detailed documents.

What many OTHER Contractors do: most other General Contractors in this corner of western North Carolina will only price custom home construction projects as a Cost Plus arrangement. What does this mean? It means that you do NOT have a known price to build your house from the beginning, and possibly never, until it is completely done, with your General Contractor laying on a hefty profit (or double profit) on top of their Subcontractors and material providers. They are charging you WHATEVER IT COSTS plus a chunky profit over and above that. And if you demand a fixed price from them, it has been known that some other Cost Plus Contractors admit to adding on another 20% to 30% to cover themselves (over and above their already high profits). Sounds usurious, doesn't it?

## **2. YOU ARE GIVING COST PLUS CONTRACTORS A BLANK CHECK**



Actually, it is in the Cost Plus General Contractor's financial best interests to allow their subs to charge as high of prices as they want (or to purposely use certain subs because they charge more), because in terms of the math, the Cost Plus GC (General Contractor) applies a percentage on top of the subs. So the higher the sub number, the higher the GC profit. Does that make sense? It certainly

does to some Cost Plus GCs. Probably not so much to the poor homeowner who is paying to have their house built with no known price and costs escalating. In other words, when you deal with many Cost-Plus Contractors, you are giving them a blank check. Never thought of it that way? You should.

Why does this situation exist in western North Carolina? There is something going on, perhaps that can't be proven, but it certainly appears that there may be some sort of pact among some Cost Plus Contractors to minimize architectural documents. Why? So that these Contractors can say to the future homeowner: "There's too many unknowns", we have to go Cost Plus!" And they would be correct. However, there appears to be something nefarious afoot. It feels questionable.

### 3. HOW TO FIX THIS PROBLEM

What to do to correct this inequality?

Here's how:

You, the future homeowner hire a Licensed Architect and pay them to create detailed and thorough design and construction documents and specifications that leave very few questions unanswered.



THAT is what Hearthstone prefers to bid. And that's how they can provide a Fixed Price. If you don't have detailed documents, they can't do that. So the whole "good deal" depends on you getting detailed documents from your Architect. A real Architect.

However, Cost Plus Contractors can just rear back and say: "Well, I don't care about that, we just want to go Cost Plus." Well, of course they do. Who wouldn't want a blank check? Is there collusion? Not sure. And some Cost Plus Contractors can give the impression: "Drawings? We don't need no stinking drawings! (or very few)" Or

something to that effect. Some of them don't want an Architect around watching what they are doing and some Cost Plus Contractors want the freedom to change whatever they want (possibly to a cheaper choice that their customers don't even know about), so of course, they don't want a real, licensed Architect and certainly as few drawings as possible so the Cost Plus Contractor (not all, but perhaps some) can change whatever they want, whenever they want, on the jobsite. The Consulting Architect to Hearthstone (HOME ARCHITECTS® has actually had some of those say those things to him).

Don't be fooled by this anti-Architect approach on the part of some (or possibly many) Cost-Plus Contractors. Don't use unlicensed "designers". They don't have the experience, formal degreed education from major universities, knowledge, internship, continuing education requirements, or state license a real Architect does. Some Cost Plus Contractors are infamous for using or recommending unlicensed "designers", who have no governmental regulation whatsoever. They could produce a "design" on a single sheet of paper and the coordinating Cost Plus Contractor would probably smile broadly, and then be able to say to you: "Not enough detail, I'm going to have to go Cost Plus on this one". Yeah sure, and on the last hundred projects as well. Hearthstone has just shared with you one of the dirtiest secrets of the custom home construction business.

Don't be taken in by the Cost Plus guys. Go with a good, real state-licensed Architect. And if you want to be sure they are licensed, just ask them for their license number. If they can't or won't give you that number, they aren't the real thing. Get plentiful, detailed documents and specifications. Then have Hearthstone provide you a Fixed Price so you know what your project is going to cost you from the beginning. No blank checks.

"Specifications? We don't need no specifications!"

Sound like the line from several movies? It's what some Cost Plus Contractors might say. They don't want specs, especially from a real Architect. Specifications from an Architect will declare material and product standards, test requirements, strength levels and other requirements to make sure their projects are properly built. Cost Plus Contractors prefer to have free reign to do whatever they want. Not all of them are bad guys, but they sure don't leave you with a comfortable feeling.

Have you ever heard the phrase: 'PLANS & SPECS'? Most people believe their house is going to be built based on the Architect's Plans and Specs, right? Well, come to find out, some Cost Plus Contractors do NOT WANT specifications (and very few plans). Can you

believe that? Most homes these days are built withOUT specifications! Outrageous. No standards, no quality levels, no nothing as far as the materials going into your house.

And if you think “Code” is going to save you, think again. Do you know how long most “official” inspections take? Under 5 minutes. And while there are some very capable inspectors in the USA, not all of them are. It is Not their job to insure that your house is built properly, or in accordance with your “plans”. It is their job to see if MINIMUM standards are adhered to, that’s all. And quite often not all that much. Minimum standards do not a good home make.

However, both Licensed Architects and Hearthstone Construction want Specifications so that the quality of materials in your house is clearly understood up front, before pricing and certainly before construction.

#### **4. SUMMARY: ACTION PLAN FOR YOU AND YOUR UPCOMING HOUSE PROJECT**

FIXED PRICE= Good for the homeowner= known cost up front.

COST PLUS= Bad for the homeowner= blank checks= unknown costs.



Moral of the story: allow Hearthstone Construction to hook you up with a quality oriented, real Architect, licensed in the state of North Carolina who will prepare a top notch design and detailed construction documents for you and your proposed house. Is that going to cost you some money? Of course. And it’s not cheap. But those good documents

can save you hundreds of thousands or millions of extra dollars the unknowns in a Cost Plus construction could end up being.

Hearthstone will be able to prepare a fixed price on those detailed documents so that you will know the cost of your project from the beginning of the job. Now then, of course, if there are changes to the project, those are called change orders, which typically will add to the job cost. However, many change orders are often the result of Owner requested improvements. There also may be contract allowances that could be

exceeded that result in cost increases. But you should spend what you need to in order to have your Architect prepare detailed documents. That will come back to you many-fold in known construction costs.

Or: don't listen to us and have your "designer" prepare skimpy documents so your Cost Plus Builder can say: "Too many unknowns, I'm going to have to go Cost Plus on your job." And then you write him a big, blank check (or many).

Like Paul Harvey used to say: "And now you know the rest of the story."

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Because: there are many reasons, just like those above, that are just as important during the construction of your house. Hire the pros: contact Hearthstone now.