



truebuildingpartners

The Framework to Project Success

Section 2.1 – Contracts

Why You Need a Contract with Your Builder

A written contract is necessary to protect your investment in a construction project. It provides...

- **Legal Protection:** Spells out liability and insurance requirements.
- **Financial Management:** Establishes payment terms and change order procedures.
- **Project Clarity:** Ensures both parties have a shared understanding of the scope of work.
- **Quality Assurance:** Defines completed work and warranty terms.

How to Find a Legal Professional to Review Your Contract

While our contract template is designed to cover the essential aspects of your project, having a legal professional review the document is always a good idea. They can ensure that local laws, regulations, and any unique aspects of your project are properly addressed. To find a legal expert...

- **Ask for Recommendations** from friends who've built houses and post questions in relevant online forums (like local Facebook groups or Reddit pages).
- **Search Online** for local lawyers specializing in construction, looking for reviews.
- **Build a List and Call Law Offices** to ask about their availability and relevant experience.
- **Compare at Least Two Prices:** Ask upfront about fee structures and estimated times to review and finalize your contract documents.

Understanding the Different Types of Contracts

With our Framework, we are providing two different types of contracts and explaining the difference...

- **Cost Plus:** The contractor is reimbursed for actual costs incurred (direct costs like labor and materials) plus an additional fee or markup. Sometimes this is referred to as a Time & Materials contract. The benefits of this type of contract include:
 - **Flexibility for Scope Changes:** Allows the scope to change without renegotiation.
 - **Better Quality Control:** There is less incentive for the builder to cut corners.
- **Fixed Bid:** The contractor agrees to complete the terms of the project at a fixed price. The price is determined before the work begins and encompasses all costs. It is also known as a Lump Sum Contract. The benefits of this type of contract include:
 - **Price Certainty:** Sets a predetermined price that allows precise financial planning.
 - **Incentive for Efficiency:** The contractor makes more money when they are efficient and reduce mistakes.

How to Fill Out the Contract Template

We've tailored our contract templates to be as straightforward as possible, with each section requiring only a handful of variables, with clear and concise prompts. These contracts have evolved over our 30 years of building. Each article is a product of lessons learned in construction. Here is an outline of the articles in the contracts with a brief description...

1. **Description of Work:** List out the documents that describe the scope of work. Define whether your project is new construction, an addition, and/or a remodel. It is essential to have a date listed for the plan set you are building from.
2. **Date of Commencement and Substantial Completion:** Agree on a start date and estimated completion time. Be clear about what "substantial completion" means for your project
3. **Agreement Amount:** For cost-plus contracts, this article sets the Contractor's Fee. This is typically around 12% – 20%. For fixed bid contracts, this states the total cost of the project.
4. **Cost of the Work:** This only applies to the cost-plus contract. It outlines the specific costs for labor, materials, equipment, and any other project expenses, specifically the hourly wages for workers.
5. **Subcontracts:** This article does not require input. It simply grants permission for the contractor to use subcontractors on the project.
6. **Financing and Payment:** This article identifies the agreement deposit amount. The deposit is usually 5% – 10% of the total cost. It also specifies the payment schedule and how payments will be made (e.g., installments, milestones).
7. **Changes in Scope of the Work:** This article does not require input. It detail how any changes to the original plan will be handled and priced.
8. **Insurance:** This lists the types of insurance your builder should carry to protect against damage or accidents during the project. It also explains your option to carry personal liability insurance.
9. **Warranties:** This explains the warranties provided for labor or materials and their duration. A one year warranty is the industry standard.
10. **Right to Cure:** If something goes wrong, this article gives the builder a reasonable opportunity to fix any issues before legal action is taken.

11. **Dispute Resolution:** This establishes a method for resolving disputes (e.g., mediation or arbitration) to avoid lengthy court battles.
12. **Contractor's Right to Suspend Performance and Terminate Agreement:** This defines the conditions under which the contractor can halt work. You will want to establish a length of time. Typically this is between 5 – 10 days.
13. **Owner's Right to Suspend Construction and Terminate Agreement:** This outlines your rights if the builder breaches the contract or fails to perform. This is also typically between 5 – 10 days.
14. **Additional Owner's Responsibilities:** This is where the builder lists any responsibilities you have as the homeowner (such as informing the builder of property easements, the presence of radon gas or harmful materials such as asbestos). We kept a clause we usually include that states you cannot hire your own subs or do your own work without approval by the builder.
15. **Other Provisions:** This is a catch-all article that includes any additional clauses or provisions. We've included a mold and mildew disclosure as well as photography permission.