



BE A **R. DODGE WOODSON**
SUCCESSFUL
BUILDING
CONTRACTOR

**SECOND
EDITION**

Be a Successful Building Contractor

R. Dodge Woodson

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Introduction

Becoming a successful building contractor is a goal that can lead to a wonderful life. You can make more money than you might imagine, and the quality of your life can improve. Being a builder is not only potentially lucrative, it can be a lot of fun. Driving around town and seeing houses that you built should give you a good feeling and a lot of self-esteem.

Is it difficult to become a home builder? Not really. Opening your own building business is probably a lot easier than you think. Can you really make a lot of money building houses? The answer to this question depends on several factors, but it's not at all uncommon for builders to pocket a profit from each house that is equivalent to 20 percent of the home's value. In other words, if you build a modest \$100,000 home, you could walk away with \$20,000 for a few months' work. A \$200,000 home could pay you \$40,000 for the same amount of time. Builders who take a hands-on role in the construction of home, for example, by acting as the carpenter, can make much more.

It's not fair to say that all builders make a 20-percent profit from building houses. Some make more and some make less. But, when you consider how few hours you might invest to build a house as a general contractor, even \$10,000 per house is a high hourly rate. You can definitely make some very good money as a builder.

You don't have to be a carpenter to become a home builder. I started out as a plumber and became a builder who built as many as 60 single-family homes in a year. Lawyers have become builders, and so have people from many other walks of life. You need some knowledge of construction trades, but you can gain much of that from books like this one.

All in all, getting into business as a builder is easy. Making money and staying in business is not so simple, but it's something that people with average intelligence can do. You don't need a college degree or 10 years of field experience to become a general contractor.

I've worked in the trades for about 22 years. My career started with plumbing and grew into remodeling. Then I moved into building houses on speculation. My next move was to become a custom builder, where the money is better and the risk is less. From there, I got into real estate sales as a part of my building business. In recent years, I've worked as a consultant to contractors who needed help setting up businesses or straightening out businesses that are going badly. My experience with all aspects of home building runs deep, and I'm going to share it with you.

By reading this book, you can learn from my experience and mistakes. Just one piece of advice from these pages could save your financial life. I'm not going to candy-coat it for you; building can be a tough, competitive, and risky business.

Until you learn the ropes, you could hang yourself. But you won't, because you are smart enough to be reading this book. The builders who get in trouble are usually people who think they know it all. After 22 years, I'm still learning, and I don't think anyone ever knows it all.

Take a few minutes to scan the table of contents. You'll notice that just about every topic you'll need to help you to start your own building business is covered. If you thumb through the pages, you'll see sample forms and illustrations that make the learning curve shorter for you. I don't stand on a soap box and preach to you. Instead, I talk with you as if I were sitting across the desk from you. My writing style is easy to understand, and I'm talking from experience gained over more than two decades.

I've been through recessions and economic slow-downs. Those times weren't pleasant, but I survived. You can turn adversity to your advantage if you have the right attitude and knowledge. If you are interested in becoming a successful building contractor, I believe you absolutely owe it to yourself to read this book. I don't say this just because I wrote the book, but because I know how much a book like this would have helped me in my early years as a builder. I don't think you will be disappointed with the advice you find in this guide to becoming a successful building contractor.

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I

Becoming an after-hours builder

When most people think of moonlighting for extra money, they don't consider becoming an after-hours builder. Lots of people know that plumbers, electricians, carpenters, painters, and other tradespeople work evenings and weekends to make extra cash. Almost every tradesperson I've known, myself included, has moonlighted at one time or another. Many of them do it as a way of getting into business for themselves on a full-time basis. But can a home builder get started by working nights and weekends? Yes, and this chapter shows you how.

Home builders come from all walks of life. Many of them start out working as carpenters and grow into being contractors. They sometimes start with repairs and remodeling as they work their way up to being full-scale home builders. I started out as a plumber and grew into remodeling. From there, I went on to build as many as 60 homes a year. Who else might become a builder?

I've met builders who started in some professions that you might not think would lead to a career as a builder. Lawyers, real estate brokers, electricians, farmers, and police officers are just some of the backgrounds of builders I have met. So, nearly anyone can make the transition from whatever they are currently doing to home building, although it is easier for some than it is for others.

If your background is in construction, you have an obvious advantage over someone who has never set foot on a construction site. While you might have never built a house, working in new houses, around other trades, gives a person a good idea of what goes on during the construction process. Field experience alone isn't enough to make someone a good builder, but it sure helps.

So, how can you get away from what you are doing for a living now and enjoy being a home builder?

To tackle the job right, you need money and experience, not to mention a lot of contacts with subcontractors, suppliers, lenders, and assorted other people. I'm sure that some people have the financial resources to start a building business in a first-class manner. I never enjoyed this luxury. I had to start at the bottom and crawl up the mountain. At times, it seemed as if the mountain was made of gravel, because every time I would near the top, I would slide back down the hill. But I persevered and made it. I think you can too.

After running my plumbing and remodeling business for a while, I wanted more. Home building seemed like a logical path to take. Since I didn't own a home, it made sense to try my hand at building by creating a new home for myself, and

that is what I did. By building the home myself, I was able to use my sweat equity as a down payment, so I essentially built the house without using any of my own money. I was even able to pocket a little cash as profit from the deal. That first house was the stepping stone that led to the top of my mountain.

When I say that I built my first house, I should qualify my terminology so that you understand that I did not drive every nail personally. I acted as a general contractor. My wife and I did the plumbing, drywall work, painting, tile work, and some other odds and ends, but we used subcontractors for the rest of the work. The house wound up costing more than I had projected it would, and the drywall work wasn't all that great. Since that house, I've always hired others to do drywall work. After building my own home in my spare time, I decided to sell it and start another new house.

For three years my wife and I built a new house each year. After building our second new home, we started building houses on speculation. By the time we built our third house, we were averaging about 12 new homes a year, in addition to our plumbing and remodeling business. When we really got rolling, we were doing 60 homes a year, running the plumbing business, doing a little selective remodeling, and operating a real estate sales business and a property management business. All of this came about due to the income made from building. The money from plumbing and remodeling paid our bills, and the moonlighting we did with spec houses gave us the cash to jump into the big leagues. I suspect that you could do something similar if you put your mind to it.

IDENTIFYING YOUR BASIC NEEDS

What are the basic needs for becoming a part-time builder? They are less than you might imagine. If you operate as a general contractor, you don't need much in the way of trucks, tools, and equipment. The subcontractors you engage provide for their own needs. All you have to do is schedule and supervise their work. This, however, is not as simple as it seems.

Since you will probably be working your day job when you get started, you need an answering service or machine to take your phone messages. A license to build might be required in your region, and a business license is normally required. You can work from home and meet your prospective customers in their homes. You should invest in liability insurance, and you need to advertise. On the whole, the financial requirements for becoming a part-time builder are minimal.

It is best for builders to have reserve capital to get past financial hardships, but if you're good and if you're lucky, you can make do with very little cash. If you bid jobs accurately and profitably, you have no need for a lot of cash. After all, you have your regular employment to pay your routine bills, your overhead is low as a builder, and construction loans can provide your cash flow for building.

CLEARING YOUR FIRST HURDLE

The first hurdle you are likely to have to clear is your lack of a track record. Your customers will probably want the names of references, and they might even want to see examples of your work. When you are starting out, you can't provide references or work samples. This obstacle can be difficult to clear, but there are some ways to work around the problem.

2 Becoming an after-hours builder

If you are building your first house on speculation, you won't have to worry about references or work samples. Potential buyers of the home can see what they are getting. This makes your job a little easier. If you can't afford to take the risk of building on spec, you have to be more creative in coming up with a way to get customers to accept you.

I've already told you that the first houses that I built and sold were homes that I built without having buyers already lined up for them. Doing this created my references for me. But when I moved to Maine from Virginia, I didn't have any references. Getting my first couple of contract homes to build was a bit more difficult. People would come into my office and talk about building, but they wanted to see tangible proof of my abilities, which I, of course, could not show them. I had to come up with a plan.

To overcome the problem of not having a model or sample home to show people, I changed the types of advertisements I was running. The ads offered people a chance to have a new house built at a reduced cost by a builder who would pay them a monthly fee for the first year they owned the home in exchange for allowing the home to be shown periodically as a reference. I discounted my prices by 5 percent and offered buyers \$150 a month for 12 months as a model-home fee. The strategy worked. Buyers came in, houses were built, and I was back up and running.

The discounted price and the \$1200 per house for model fees cut my profit down on the first two houses I built, but after those two homes were established as references, I didn't need to continue offering my special deal. By giving up a little in the beginning, I was able to get off to a fast start. You could try something similar, or maybe you can come up with a better idea. The point is, you can find ways around the problem of not having references and sample homes.

GAINING KNOWLEDGE

How much knowledge of construction do you need to succeed as a home builder? The more you have, the better off you are, but you can get started with a basic level of knowledge and learn while you earn. As a general contractor, you don't have to do any of the physical work involved with construction. Your primary function once a job is underway is to schedule and supervise workers. It is obviously much easier to supervise people when you understand what they are doing and how the work should be done. But you don't have to be a drywall finisher to supervise drywall work. If a job looks good, you know it. When one looks bad, you can see it.

Code enforcement officers check the work being done for code violations. In theory, you don't have to know much about construction to be a builder who subs all of the work out to independent contractors. In reality, however, builders with the most knowledge of construction are generally much more successful than people who don't know or don't attempt to learn all they can about the home-building process.

If you have good organizational skills and can manage people, budgets, and schedules, you should be able to become a viable home builder. What you need to know about various trades can be learned from reading and watching videos. Numerous books and videos available for do-it-yourselfers give step-by-step instructions for everything from plumbing to tile work. You can educate yourself by reading and watching, without ever having to work on a construction site. It is best, however, to have some practical field experience.

AVOIDING DANGERS

One of the biggest dangers for rookie builders is lack of experience in pricing homes. Even experienced carpenters often don't know how to work up prices for complete homes. They are not accustomed to figuring in the cost of septic systems or sewer taps or the cost of floor coverings and finish grading. How can you get the best estimates possible when you've never done one before?

Take a set of blueprints to your supplier of building materials. Ask the manager to have someone do a take-off of your material needs and price it. Many suppliers provide this service free of charge, but some don't. Circulate copies of the blueprints to every subcontractor that you need. Have the subs give you prices for all the work they are expected to do. While your subs and suppliers are working up their prices, you can start doing some homework of your own.

Take a set of blueprints to a reputable real estate appraiser. Ask the appraiser to work up either an opinion of value or a full-blown appraisal. This costs you some money, but it is well worth it.

Once the appraiser has given you a figure, you know about what the market value of the home is. You can consult some pricing guides to determine what various phases of work should cost. These guides are available in most bookstores, and they have multiplication factors that allow you to adjust the prices to coincide with prices in your particular region.

When you get your prices back from suppliers and subcontractors, you can compare them with the numbers you came up with from the pricing guides. You can also look at the difference between the bid prices of your subs and suppliers as they are compared to the finished appraisal figure. The spread between the bids and the market value represents your potential profit. It should normally relate to about a 10- to 20-percent gross profit. A 15-percent profit might be an average, but the amount varies with economic conditions and the prices given by subs and suppliers. I'll talk more about pricing and estimating later in the book, but the procedures I have just discussed are the basics.

FIGURING CAPACITY

How many houses can you build in a year as a moonlighting builder? The answer to this question varies with experience level, sales opportunities, lot availability, individual time commitments, and so forth. You should certainly be able to build at least two houses, and probably four. Since you are using subcontractors, you can have multiple houses under construction at the same time.

I used to do about 12 houses a year as a part-time venture, but I had help from my wife. A goal of six houses a year seems like it would be realistic for someone who had a construction background and a good stable of subcontractors. Once you get into the building game, you can assess your time needs and adjust your goal as needed.

DETERMINING HOW MUCH MONEY YOU CAN MAKE

How much money can you make as a part-time builder? It depends on the types and sizes of houses you are building and how well you manage your production schedule and financial budget. If, for example, you are building \$100,000 homes and your

gross profit is 20 percent, that means that you are making \$20,000 for each house you build. Four houses a year at this rate would be \$80,000. Can you really do this? It can be done, but you will probably make less money per house until you get your act refined. But even at \$15,000 a house, you're still pulling in \$60,000, and that's not bad for a part-time job.

If you want to look at the worst case, assume that you make a 10-percent profit. That's \$10,000 a house, or \$40,000 a year. There really is a lot of money to be made as a builder once you work the bugs out of your system. If you can survive the first few houses you build, you stand a very good chance of enjoying a long and profitable career.

2

Getting your feet wet

Getting your feet wet in the building business without getting in over your head takes planning. A person who decides one day to be a home builder should not just run ads in the local newspaper and wait for the phone to ring. It can take months of preliminary planning to prepare for opening a home-building business. The money to be made as a builder is rich, but so are the risks. To avoid failure, you must have some solid plans.

The first thing you need to do is make sure you are ready to assume the role of a builder. Do you have enough general knowledge to perform the functions of a general contractor? If you don't, start reading, attending classes, or working on some construction sites. Gain as much experience and knowledge as you can before you offer your services as a builder to the public.

There are many ways to prepare yourself for becoming a general contractor. One low-impact way is to read every book you can find on building and related trades. Read books that have been written for homeowners and do-it-yourselfers. Seek out titles that have been written for professionals, such as the *Builder's Guide* series published by McGraw-Hill. Absorb the wealth of knowledge provided by seasoned professionals that can be found in these books.

In addition to reading, you can attend classes that pertain to various trades and home building. Some places offer workshops for people hoping to build their own homes. Look into the possibilities of attending workshops or vocational classes if you feel you need more training than you can get from a book.

Videos have become extremely popular, and videos are available that show viewers how to perform certain tasks, such as hanging cabinets or installing plumbing. Your local library or video store might have some of these learning tools on hand. If not, I'm sure they can help you order videos that can boost your knowledge level.

Even if you are an experienced construction worker, you might still need to attend some classes. There is more to being a builder than just constructing a home. The business side of building gives some tradespeople trouble. If you are not comfortable with your office skills and management ability, take some courses that cover these subjects. Administrative skills are sorely needed in the building business.

Now, assuming that you feel ready to become a builder, you must find a way to tap into this lucrative market. If you have some money and good credit, you could start by building a spec house. This can be extremely risky, however, and I wouldn't

recommend it as a starting point, even though it is how I got started. The safest way to break into building is with houses that are presold.

DECIDING WHAT TYPE OF HOUSE TO BUILD FIRST

What type of house should you build first? Any type someone is willing to pay for, of course. But really, you'll find advantages to building some styles of houses over others. A ranch-style house is the easiest to build. Straight-up two-story homes give buyers the most square footage for their dollar. Cape Cods are very popular with people who are looking to build their first home on a budget. Elaborate designs make a builder's job tougher. So where and how do you begin?

As long as your subcontractors are all experienced workers, you should be able to build any type of house. But logic dictates that simple designs are faster and easier to build. It is reasonable that you should try to start with a house that can be built quickly, so that you can generate a cash flow and a profit as soon as possible. Keeping your starting designs simple makes it easier to figure material and labor needs, so you run less risk of cost overruns. With all this in mind, I would come up with three sets of house plans to start off with. The houses would be a ranch, a Cape Cod, and a two-story.

You're probably wondering why you should come up with specific house plans if you are going to be doing custom building. This is a fair question. You will be building to explicit specifications supplied by your customers, but you need something to advertise. If you simply run an ad that says you are a home builder and that you are open for business, you're not going to get a lot of buyer activity. But if you run a picture of a particular house, list features and benefits of the home, and include a price, your phone should start to ring. Obviously, to do this, you need to have a plan to work with.

Part of the decision on what styles of homes to choose for your ads should be based on local conditions. Economic factors come into play, as do public preferences for particular house styles. You're going to be competing with established builders, so you need an edge or an angle to work with. Gaining this advantage is often easier than you might imagine.

PICKING THE RIGHT HOUSE PLAN

Picking the right house plan is not something that should be done based on personal preference. Your decision on what size and style of home to offer the public should be the result of research. Your investigation won't require a lot of high-tech surveillance or weeks of your time. All you have to do is ride around and see what types of houses are popular in your area. Are a lot of split-foyers being built? How many newer homes have only one level of living space? Do most new homes have attached garages? Are front porches fashionable? Looking for these types of design features can bring you up to speed quickly on what the public wants. If you see that only one out of eight houses is a ranch, you can shuffle your ranch plans to the bottom of your pile.

It is not wise to try reinventing the wheel. The odds of success when you seek radical change are low. Your chances of success are much better if you follow the lead of your competitors. If colonial two-story homes are abundant in your area, look for a nice set of plans for a colonial. Go with the flow, but with a twist.

CREATING YOUR EDGE

What is your edge as the new builder on the block? It's something you have to create. It might be low prices. Your claim to fame could be outstanding designs or superior workmanship at affordable prices. Something as obvious as marketing and advertising could be what sets you above your competition. The edge can be almost anything, but you need it to survive and prosper. If you are just a carbon copy of all the other builders, you are at a disadvantage. Finding what works best for you is a personal thing, but I can give you some ideas.

Price

Price is a factor that many businesses use as a lever. Trying to beat the prices of your competitors would not be my first recommendation. If you become known as the cheap builder or the discount builder, you might have trouble moving up to higher-priced homes. But getting a reputation as a value-conscious builder is a different story. Everyone likes getting a good value, but some people look down on cheap or discount deals. The result is the same, but the image you present is different.

To create the aura of a value-based builder, you have to make your homes a little different. You can put your two-story colonial up against your competitors, but you have to create some subtle differences in the plan. Your goal is to make customers compare apples to oranges, rather than apples to apples. This way, your homes don't appear to be a cheap version of what the competition is offering. If your competitor has a laundry room built onto the side of a home, as many colonials do, you might consider putting the laundry hook-up in a basement or closet to eliminate the cost of the attached room. This changes the outside appearance of the home, but it also lowers the cost in a way that can't be construed as a discount.

Customer base

Before you jump into blueprint selections, you must identify your customer base. Do you want to deal with first-time buyers and starter homes or do you want to work with more affluent buyers? You might make less money on a per-deal basis with starter homes, but these entry-level houses are a good place to begin your building business, for several reasons. Number one, first-time buyers are often ignored by larger, more established contractors. This opens the market up for you. Second, first-time buyers are not usually too choosy when making a commitment to purchase a house. Any house they can get is better than what they have, so they might jump at whatever you have to offer them. Another big advantage to first-time buyers is that they are not encumbered with a house to sell. This makes it possible for you to make quick sales that are not contingent on the sale of other properties.

Second-time home buyers often have to liquidate their existing homes before they can make a building commitment. Having owned a home previously, these buyers are frequently more selective than first-time buyers. The price of houses purchased by move-up buyers is more than that of the homes for most first-time buyers, but the difference can be made up in volume and quick turnover with first-time buyers.

I can't tell you absolutely what might be best for you. But I can tell you that I have catered to first-time buyers as both a builder and a broker, and I've done well in doing so. If I were you, I'd give serious consideration to focusing on first-time buyers.