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CHANGE ORDERS

2020 Categories: Change Orders

BLOG

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Change orders are an important tool for a home buyer during the course of construction. It is important to understand exactly what a change order is, how to control change orders, and how to ensure your home builder is not using change orders as a significant profit center.

To Change the Past

A change order is a written directive to the home builder to make a change to the project which will affect scheduling, cost and material, or activity that has *already occurred* or has been scheduled and material ordered. For example, windows are installed in the framing of a home and the home buyers decide that the family room windows need to be larger.

A change order should not be for a future change.

Often, a change order will consist of the cost of the change, including home builder profit, *and a penalty*. The penalty can range from small (~\$250) to large amounts, depending on the home builder and their change-order policies. Be sure to ask your home builder how much the change order fee is before signing the contract.

To Change the Future

Changing a selection is not a change order. Changing a selection is making a change to something selected for the future. For example, your custom home's plumbing fixtures were initially selected as Moen Chateau in chrome. Prior to ordering the valve assemblies (at the start of framing of the home), you want to change the plumbing fixture to Moen Eva brushed nickel finish. This change in selection should not be a change order because it is for a future (selection) change. Consequently, there should not be a penalty for making such a future change.

There is often confusion about change orders because many home builders will use the term "change order" to indicate a change in selections. The way to determine if it is a change of selection or a change order is whether there is a penalty fee associated with the change.

THE GOOD, THE BAD, and THE UGLY Change Order



Home Builders

Home builders are a diverse group of entrepreneurs. Most homes are built by home builders with fewer than 5 employees. Knowing what type of home builder you have selected will make your custom home experience wonderful — or a nightmare. By understanding your home builder's policies regarding change orders, you will have valuable insight on your relationship with your home builder. The information below is subjective, but with 30+ years of homebuilding experience, we have an exceptionally good understanding of our industry.

Of all the information we are providing in our blogs, this might be the single most important bit of insight for a home buyer to understand when selecting a home builder.

The Good

The good home builder is transparent with all information and actions. Although no home builder shares their actual cost to build your home with a fixed-price contract, most margins are similar for a region.

The goal with a good home builder is to build a quality home for their client and minimize conflict and issues. Full disclosure on all specifications and selections, contracts, scheduling systems, change orders, and what a client can do (and, just as importantly *not do*) during the construction process is important. ***Everything is in writing*** or available from online systems that can easily be reviewed and verified.

A home builder's specifications and selection documentation should be extensive and presented clearly and concisely. Change of selections and change orders are straightforward and easy to understand.

A good home builder's business philosophy regarding change orders is that a change order is used when something has gone wrong and needs to be corrected. It is not used as a tool to make more money or punish the client. Common change orders include moving a framed wall, enlarging windows, changing door locations, etc. These types of changes are initiated by the client who simply did not understand the blueprints or wants to change an item in the home.

A typical change order will result in stopping certain work on the project to change the requested item. This can have many consequences, because once work is stopped, it needs to be rescheduled, and subcontractors are often scheduled for several weeks with other projects before they can return to the job.

The goal of a good home builder is to minimize change orders, not create change orders for additional revenue.

The Bad

The bad home builder will often use change orders to fix construction mistakes that originated from poor information, lack of communication, or hectic and confused scheduling. Instead of taking the blame and fixing the issue (which can be an expensive proposition), the bad home builder will place the blame on the client and try to recoup the cost by enforcing a change order. This creates conflict in the construction process.

Often, it is difficult to determine if your home builder operates this way prior to the start of construction. We strongly recommend that, before hiring a home builder, review that builder's



documentation, selection system, scheduling system, etc. If the processes and systems are poorly documented and confusing, you might have future issues.

To make choosing a home builder even more challenging, there are great custom home builders who only build several projects a year and are onsite and hands-on throughout the project. They might not have great documentation or systems, but they are excellent home builders that care deeply for their clients.

The Ugly

The ugly home builder is easy to spot. They bid low on projects and make up the “lost” revenue in change orders and extras. There are a lot of home builders who operate this way. The typical relationship between the ugly home builder and their client is one of stress and conflict.

It is important to understand that most home builders pay similar rates for material and labor. Profit margins are standardized in the industry. If you receive a low-price bid relative to the other bids, do your research and look very closely at the home builder. Once you sign the construction contract, it is too late to back out without significant penalties and legal action. Nothing in this world is free. You really do get what you pay for when you build a custom home.

Another red flag for the ugly home builder: Their initial price is low, but they require “home buyer help”. We have seen certain home builders who provide a very low price, but they require the home buyer to excavate, paint, hook up utilities, and more. While the low price may seem appealing, the ugly home builder depends on the client not being able to do the work on schedule, which the ugly home builder will gladly complete — for a large premium. That is where their profit comes from, not the original contract price.

The ugly home builder has done more harm *by far* to the overall reputation of home builders and the homebuilding industry than anything else. We cannot emphasize this strongly enough: Beware the ugly home builder.

We Are Here To Help

At NewHomes.House, we believe in providing our home buyers with as much information as possible so they can make the right decisions for their custom home.

Please contact us to schedule a call so we can answer all your questions — it’s free, and there is no obligation. We love to talk construction!

Call or text us at **(509) 370-8868**.