



Change Order Basics

by Blaine Karr

You're a small builder or remodeler with a signed contract about to start a job. As part of the contract, you have a detailed set of plans and specifications along with a construction schedule. In order to ensure meeting the completion date, you advise your clients that they must select windows, doors, and plumbing and light fixtures by a certain date so as not to hamper job progress. With the selections made and the orders given to the subcontractors and suppliers, you feel satisfied that you are on top of this job and that the work is progressing at a good pace.

A few days later, however, you receive a call from your job foreman telling you that the client wants to meet you on the job immediately. You rush to the site where the client meekly tells you that an interior partition must be moved to create more space for the oversized custom furniture. The job is built exactly to the plan the clients agreed to, but now they just can't live without the change.

At this point, you closely question what the client wants, and lay it out on the floor so it can be clearly seen. When you are certain what the client wants, you inform him that you will work out a detailed cost of the proposed change and present it later.

Driving back to the office your earlier euphoria melts away as you mentally review all the steps needed to meet the client's request. Moving the partition a mere 6 inches is easy; but tucked inside that partition are plumbing and heating risers and electrical wiring. You cringe further when you realize that the special-order wood window, designed by the client for the hallway, will no longer fit. And you wonder whether reducing the hallway width might create a building code violation.

Eager to Please

Custom builders and remodelers, eager to please the client, face a conflict at this point. They don't want to alienate the client, but are not in a position to work for free and take a loss. In some cases, the client assumes that the additional work is covered in the original contract and

expects the builder to do the work at no additional cost.

In order to resolve the conflict, you need to find out your real costs and the consequences (for example, a delayed completion) and communicate these clearly to your client. In the case described above, you contact the subcontractors involved, get detailed cost estimates of the proposed work change, combine it with your own costs, and present it to the client. For example, in this case, you should check into the possibility of canceling the order on the special window. You should check with the subs to see if the mechanicals could be relocated inside the moved partition. And, of course, you need to check to see if the revised plan is acceptable to code.

If you've done a good job of educating the client beforehand about the change-order procedure, the client should verbally accept the change and cost increase, and both parties can sign the change order, including a revised schedule and completion date.

It is important for any builder to accept that in custom work change orders are as certain as death and taxes. But they are manageable as long as you follow some basic principles.

Rules of the Road

The first principle is to establish the ground rules at the beginning of the job and make the client aware of how your company handles change orders. Before the contract is signed, you should give the client a step-by-step walk-through showing how a change order is initiated, costed out, and submitted to the client for approval. Laying the groundwork at an early stage prepares the client and shows him what type of business you run.

Second, all change orders should be done in writing whether on a standard AIA (American Institute of Architects) Change Order Document, or on a form that you, the builder, supply or make up. It can be typed or handwritten as long as it contains the necessary information. This includes the date of the signing, the work to be included and/or excluded, the increase or decrease in job cost, and the change in the completion date. The form must

be signed by both the builder and the client, and copies kept by both parties. Once signed by both parties, the change order becomes a part of the contract.

Third, work involving a proposed change should never begin until both parties agree and sign the change order. Instruct the job foreman never to start the work based on a verbal change from a client, no matter how honorable the intent. You won't have much to stand on when you try to collect for additional work that was not specifically contracted for.

The final principle of change orders involves payment. I have found that no single method works best for all builders in all situations.

A smaller builder, or one with a tight cash flow, may wish to combine the change order payment with a percentage-completed payment specified in the original contract (as long as the change work has been completed). The change order bill should be listed separately. Or you may wish to submit a separate bill for change work when the work is completed.

Another alternative, and one which I am comfortable with, is to keep a list of signed change orders and make them payable at the completion of the job. The client must be kept fully aware of the cumulative costs and should be sent monthly/weekly copies of changes reflecting the total change order costs and the new project cost.

I believe it is bad policy to demand full payment on a change order before the additional work is begun or while it's in process. This can erode the client's trust in the builder, and undermine the builder/client relationship.

As a final thought, change orders can reflect a decrease in costs as well as an increase, and can be initiated by you, as well as by your client. But whatever the circumstances, by following these few simple principles, you will help keep the builder/client relationship friendly—creating client satisfaction and earning you the profit you deserve. ■

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