

## **Lump Sum vs. Cost plus a Fee vs. Cost plus a Percent**

**LUMP SUM** is the traditional approach that is the best arrangement when you have a simple project where there are not likely to be changes. However a custom project is not the best fit for a Lump Sum Price due to the numerous decisions that has to be made. The only way for a lump sum arrangement to work is in the manner that spec builders normally work. That's where they provide a lump sum price to complete the shell (*their way*), and you select the interior colors from their standard samples. You would have very limited control of the process, details, and materials. If you deviate from this process then you are looking at expensive change orders. If you like a new development and the style of homes and quality the contractor is building, then this would be the approach to take. However if you desire a custom design or a custom built home you should proceed under a cost plus arrangement, that allows a flexible and fair approach to both the contractor and owner.

Under true custom builds the process accommodates the owner from start to finish, unlike just selecting colors.

Assuming you are going to custom build, the **Cost Plus** approach is recommended. Under cost plus you will be reviewing your budgets on a regular basis and your contractor will advise you on how to stay on budget. If you select items that are over budget, then that is your decision. Likewise you may opt for some items or details that will allow a savings that will pay for the extras you desire. In essence you control your budget by your selections. A good contractor will show you what your options are on each major element that conforms to your budget. He or his representative will provide guidance on all of your selections in a sequenced schedule in order to keep your job progressing properly.

Your cost plus arrangement can be a **cost plus a "fee" or cost plus a "percent"**.

With a percent your contractor benefits when your selections are more expensive. I have some good examples latter on in the book, however the point is; should you pay your contractor more if you decide to purchase a more expensive product? Another point is if you are paying a percent then he's just going to hang around until you run out of money. If you pay a fixed fee for his services he's going to try to complete your project as soon as possible so his return per time period is better. Another benefit is he is more willing to provide options to your benefit instead of what he makes more money on. The Fixed Fee creates a scenario that benefits the homeowner.