INVESTOR FIELD GUIDES / BOOK 10

The Renovation Numbers That Protect Your Profit

Turn a walkthrough into a scope, budget and realistic timeline

Real Estate Nate

Free Investor Academy

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Examples are hypothetical and do not describe Nate's actual projects. Requirements, costs and contractor practices vary by location and property.

A repair estimate needs a scope

A number written at the bottom of a page is not a renovation plan. I want to know what work that number buys, what it excludes, how it will be completed and what could change it. A $30,000 estimate that omits a roof or permit work is not cheaper than a $40,000 estimate that includes both; the two estimates describe different projects.

Start with the intended exit and the condition required to support it. A long-term rental needs safe, functional and durable work appropriate for the property and residents. A flip needs a finish that makes sense for its likely buyer and the comparable sales used to estimate the resale value. Do not budget for one standard and claim the value of another.

1. Walk through by system and by room

Review exterior and site conditions, roof, structure, plumbing, electrical, heating and cooling, windows, insulation, interior finishes and obvious moisture issues. Note the limits of a visual walkthrough. A covered wall, sewer line or foundation condition may require a qualified inspection. Write down the question instead of assuming the least expensive answer.

Then walk room by room. Identify work to remove, repair, replace or leave in place. Describe materials and finish level clearly enough for bids to be compared. Separate health and safety issues, work necessary for the intended use and optional upgrades. Photograph or document conditions only with appropriate access and consent.

2. Make the estimates comparable

Ask qualified contractors to price the same written scope. Review labor, materials, permits, cleanup, disposal, equipment, subcontractors and scheduling. Ask who buys materials, how cost changes are approved, whether the price is fixed or an estimate, and what is excluded. Confirm credentials, insurance and references as appropriate for the work and location.

Imagine Bid A is $28,000 and Bid B is $34,000. Bid A excludes permits, flooring and disposal; Bid B includes them. If those exclusions are estimated at $8,000, Bid A's comparable preliminary total would be $36,000, subject to verification. The lowest headline price is not necessarily the lowest complete cost.

3. Separate known costs, unknowns and reserves

Suppose a defined scope is $35,000. You add a separate $5,000 repair contingency for unforeseen construction work. Your preliminary construction budget is $40,000. Purchase costs, financing, insurance, holding costs, selling expenses and a property reserve are separate categories and may also apply.

If a contractor discovers hidden water damage with a $4,000 approved change, document the scope and effect on timing. You may allocate that change against the contingency, leaving $1,000 of the original allowance. Do not subtract both the full contingency and the same change twice when calculating the budget. Update the forecast with what is known and maintain a remaining allowance for what is still uncertain.

A contingency is a planning allowance, not a cap on losses. If the scope contains a known but unpriced issue, obtain a

proper estimate. Do not treat an arbitrary allowance as proof that the issue can be fixed within it.

4. Time is a cost

Create a sequence: access, inspections and permits where needed, demolition, structural and mechanical work, required inspections, finishes, cleanup and final review. Ask how material lead times and trade availability affect the schedule. A delay can increase interest, taxes, insurance, utilities, lawn care and other carrying expenses.

Suppose your hold costs are $1,500 per month and a project takes two months longer. That adds $3,000 in the simplified model, before any changing loan fees or other effects. Confirm the actual cost categories and whether the loan matures during the delay. If the change also increases repair work, account for that separately.

5. Track the project while it is happening

Keep the original scope, budget, contract, approved changes, invoices, payment record and current forecast together. Compare remaining cash with the work left to complete, not simply with what you spent last month. Agree on a process for milestones, inspections and change orders before work starts; use contract terms appropriate to the transaction and local requirements.

When a surprise appears, obtain the facts and revise the project numbers. Can the project still meet its target with the revised cost and timeline? Is there enough cash to finish? If not, get qualified advice and evaluate available choices. Ignoring a cost does not restore a profit.

6. Run a final decision

For a flip, compare a supported sale price with purchase, repair, contingency, financing, holding, closing and selling costs, and your target profit. Then test a 5-10% lower exit separately from the repair contingency. Recalculate price-sensitive costs and any timing changes. For a rental, verify that the completed property supports rent, operating expenses, debt service and reserves; I look for positive cash flow and at least 1.30 expense-adjusted coverage.

Before buying, ask: What is the written scope? Which bids are comparable? What is excluded? What happens if a major item fails or the schedule slips? What cash remains to finish and operate? If the answer requires every estimate to be perfect, I would renegotiate or pass.

Continue with the renovation course, deal-analysis course and deal worksheet. Seek property-specific inspection and professional advice.

A useful change-order conversation

When a contractor tells me there’s another $4,500 of work, I ask what changed, what the original scope already covers and what happens if we wait for a second opinion. If it is a safety issue, establish how the site will be made safe before proceeding. For other items, ask for the revised scope, price and timeline in writing. Suppose the project had $6,000 of contingency remaining. Approving the full change uses $4,500 of that allowance, leaving $1,500. If the schedule slips another month, record the carrying costs in their own line. That gives you an honest picture of what’s left.

Field exercise: A low bid that leaves out the disposal

The facts you have

Two written bids quote $29,000 and $33,500. The first excludes $2,800 of disposal and a $1,200 permit allowance included in the second. Both assume the walls can stay closed, but only the second describes how concealed damage will be priced.

How I would work it

Normalize the first bid to $33,000 on the stated costs. The $4,500 headline spread becomes $500 before other differences. Ask each contractor to confirm the boundaries of the scope, payment milestones, exclusions and change-order process in writing. Comparing totals without those details rewards the bid that leaves more decisions until later.

Work the next decision

If the lower bid also takes three extra weeks and your carrying cost is $450 per week, add $1,350. Explain which costs belong in the project forecast even though they are never paid to the contractor.

The second walkthrough: take the pictures home and write the job

On the first walkthrough I'm trying to decide whether the property deserves more work. On the second I'm trying to identify what must be done, who can verify the cost and where the job could grow. I carry a room list and a systems list. A basement leak might affect framing, floor coverings and the outside drainage; a room-by-room list alone can make me count repairs without understanding how they connect. The systems list lets me trace the problem to a cause that a qualified person can investigate.

Suppose the living-room wall has a stain and the ceiling is freshly painted. I record where the stain is, what was visible and what was covered. I don't decide on the walkthrough whether the leak is active or what caused it. I ask the seller or agent for any work records I am allowed to see, then ask an appropriate professional what inspection is needed. A paint quote and a moisture diagnosis are different jobs. If we cannot investigate before the offer becomes binding under the agreement, I make sure the uncertainty is reflected in my decision.

I write each line of the scope so a contractor can price the same job another contractor is pricing. “Fix bathroom” is too vague. Write down which fixtures stay, what finish is expected, who purchases fixtures, what work is included behind the walls if it is known, who hauls away debris and who coordinates inspections. If an item is uncertain, describe that as a question or a stated allowance, with a plan for turning it into an actual number. Avoid writing a specification that directs a trade to do work you are not qualified to design. Ask the right trade to define the technical approach and identify what depends on conditions you cannot see yet.

Keep the acceptance standard beside the line. For flooring, what rooms are included, what material and transition are expected, and who decides whether the existing surface needs additional preparation? For appliances, who buys, receives, installs and checks them, and what happens if delivery is delayed? For paint, what surfaces are included and how are repairs and prep handled? A written scope helps when the job goes well and helps more when two people remember the agreement differently.

The scope table I want before asking for bids

Scope item	What to document	What might change the cost
Water entry at rear wall	Location, qualified assessment and who owns the fix	Source differs from the preliminary diagnosis
Bathroom floor	Finish, quantity, removal, disposal and what inspection is needed	Concealed damage extends past the room
Heating system	Existing condition, verified capacity needs and service or replacement scope	Related work is excluded from the bid
Turnover cleaning	Rooms, debris, final condition and responsible party	One contractor assumes another is doing cleanup

The table should tell me what is included today and what would trigger a second decision. I don't ask every contractor to supply a flat price on hidden conditions. I ask how we'll handle those conditions, what evidence I will see and what each possible outcome does to timing and budget. If a hidden condition could be expensive enough to change the purchase decision, I would rather investigate it before closing.

Decide what belongs in the job and what belongs on a wish list

Before I approve finishes, I write down the target use of the property. A simple rental and a retail flip may both need good workmanship, but the appropriate finishes can differ. Look for what your intended tenant or buyer can reasonably expect from comparable properties. For a rental, think about durability, repairability and reliable replacement. For a flip, think about what a buyer will actually notice and whether the added cost is supported by the resale evidence. Neither plan is a reason to postpone needed safety or functional work.

Imagine a $4,000 flooring upgrade that makes the house look better but has no supportable rent increase. The unit still needs new flooring either way. Compare two written specifications and ask about expected upkeep, replacement availability and the cost to repair a damaged section. I might pay more for a durable finish if there is evidence it will reduce future disruption or replacement, but I would not simply write a higher rent into the model to justify a personal preference. If the better finish serves no clear purpose, keep it out of the job.

Suppose a flip has an optional kitchen package costing $6,500 beyond a functional plan. The agent believes it could support an additional $8,000 of sale price, but the evidence is thin and the order might delay listing by two weeks. If incremental selling costs are 6% of the additional sale price and the delay costs $1,400, the $8,000 would contribute only $7,520 after the modeled percentage costs. The upgrade and delay together cost $7,900, putting the incremental result about $380 behind the simpler plan even at the optimistic price. A $10,000 gain would produce about $9,400 after the modeled percentage costs, or $1,500 above the upgrade and carry

costs. These are simplified numbers; use the actual cost and evidence for a real deal.

A useful conversation is, “What does this change do for the exit, and what would we do instead if we didn't make it?” That makes the contractor's scope and the agent's feedback useful together. If one person prices the upgrade but nobody can support the benefit or the timing, the price alone is not enough. Put optional upgrades in a separate list so a contingency for hidden work doesn't quietly turn into a decorating budget.

Separate safety, permission and project cost

Some questions are best answered by a qualified professional before anybody starts. Structural, electrical, moisture, environmental and occupancy questions are examples. I don't want a contractor to assume the cheapest answer simply to win a bid, and I don't want to make promises about what is required based on a different house or a different jurisdiction. Identify the appropriate permitting authority, licensed trade or specialist for the scope, and put the information you actually received in the file.

For example, if the job will disturb painted surfaces in an older home, check whether federal, state or local lead-safe renovation rules apply to the property and work. The EPA Lead Renovation, Repair and Painting Program provides guidance on projects in pre-1978 housing and on finding qualified firms. Ask about certification, required work practices and records for your situation before accepting a price that assumes ordinary demolition or paint preparation. Don't use this guide to decide that a particular exception applies. The facts and the applicable program need to be confirmed.

On an occupied property, ask what work can actually be performed while people are there, what areas need to stay usable and how interruptions or access will be handled. Consult the relevant professionals about the agreement and requirements. Put the communication and safe-use arrangements in the work plan rather than assuming residents can simply work around a crew. If the work requires an alternate plan for occupancy, include the associated timing and costs in the numbers before you proceed.

Safety and approval issues have a schedule as well as a price. If the correct assessment can't happen until next week, that can move demolition, deliveries and completion. Build the sequence around the confirmed dates, and ask what work can continue safely in the meantime. A project that is idle for a legitimate reason still has carrying costs; a project that skips a legitimate step can be far more expensive.

Compare bids on the same scope, then decide what risk you are buying

Consider three hypothetical bids for a vacant house. Bid A is $36,500 but excludes disposal and some floor preparation. Bid B is $40,000 and includes both. Bid C is $41,500 and includes both as well as a $1,500 allowance for a plumbing item whose cost is not yet known. Separate equivalent scope from real uncertainty. If you estimate disposal and preparation at $3,200, A is $39,700 for the comparable work. Removing the disclosed plumbing allowance from C for the side-by-side comparison gives $40,000, but you still need to carry the plumbing item in your overall project forecast. A is only $300 below the other normalized bids, and your number for its exclusions is still an estimate.

I would ask who will do the floor preparation, how the work is specified, what disposal covers, and how each contractor will

document and price any plumbing change. Check whether the allowance includes labor and materials, how an overage or unused amount is treated in the written agreement, and who must approve a change. A realistic comparison might still favor A, but the headline gap does not tell me that. Ask each contractor about start date, estimated duration and current commitments. A cheap bid that begins late or depends on another crew becoming available might put the exit at risk.

Don't compare an insured, documented, complete bid with a verbal number as if both represent the same commitment. Check credentials and insurance as appropriate and ask for relevant references. Verify what the contractor and subcontractors will handle under the agreement. Ask your closing, legal or lender team about appropriate payment controls and documents for the project, rather than trying to improvise them after a dispute. I want clarity about who is allowed to authorize changes and what work must be verified before a milestone is paid.

Exercise: move from bid price to project price

Bid A is $31,000, excludes $2,400 of disposal and $1,800 of floor preparation, and takes six weeks. Bid B is $36,000, includes both items and takes four weeks. Assume both start on the same day, weekly carrying costs are $525, and there are no other differences in this exercise. Which modeled project is less expensive before other costs?

Answer: A normalizes to $35,200, then adds $3,150 of six-week carrying costs, for $38,350. B adds $2,100 of carry to $36,000, for $38,100. B is lower by $250 if the assumptions hold. In reality the $250 is small enough that estimate reliability, exclusions and scheduling evidence could matter more than the arithmetic spread. Ask what happens if both schedules slip and what could cause one to slip more than the other. Don't sign a six-week cash plan on the assumption that

every week after the work is free; include leasing, listing or sale timing elsewhere in the project budget.

Draws, deposits and the week you run out of cash

A budget tells you what you think the job will cost. A cash calendar tells you whether you can pay for it on the day someone is entitled to be paid. I want both. If the lender reimburses eligible work after an inspection, approved loan proceeds are not necessarily available when the contractor wants a deposit. If I treat approval and cash as the same thing, I can have a fully funded project on paper and a stalled job on site.

Consider a hypothetical job with a $42,000 scope and a separate $7,000 contingency. There is $19,000 of accessible project cash after closing, above the owner's protected reserve. During week one the contractor requests $11,000 under the proposed milestone schedule. During week three another $9,000 comes due, along with $2,000 of owner-paid materials. The lender expects to reimburse $12,000 after inspecting completed eligible work in week four. If everything occurs in that order, the owner must cover $22,000 before any reimbursement. That is a $3,000 funding gap. The fact that $12,000 may arrive a week later does not pay the earlier bill.

Before I start, I would ask the contractor whether an alternative sequence is workable and ask the lender which costs qualify, what proves completion and how long the draw takes after inspection. Any changed milestone goes in writing. I would model a slower reimbursement and an ineligible invoice before relying on the revised schedule. I would not promise a contractor payment that depends on an inspection I cannot schedule.

Work the alternative

Suppose the contractor can move $4,000 of the second payment until after the first draw. Peak cash before reimbursement drops to $18,000, leaving $1,000 above the reserve. Now assume a $1,600 owner-paid order must ship before the draw. What happens?

The pre-draw outlays become $19,600. The plan is again short, by $600, before another delay or extra bill. The revised schedule improved the situation without making it robust. A useful next action is to confirm exactly when the order must be paid, ask whether the order qualifies for any funding and decide whether a verified cash source exists. An order you must place is not contingency just because it was absent from the bid.

Track what you have committed, even if it has not been paid

A project report with only the dollars already spent can make a job look healthy until the invoices arrive. I track the original scope, approved changes, committed but unpaid work and remaining estimates. A commitment may be a signed change, a purchase order or an agreed milestone; the terms determine what is owed. A forecast of final cost includes those commitments even if they have not hit the bank statement.

Imagine the original construction budget was $40,000, with a separate $6,000 reserve for unknown work. At the end of week five, $19,000 is paid. Another $13,000 is committed under the contract, and the uncommitted work is expected to cost $10,000. An approved $3,500 change is not included in any of those figures. The current construction forecast is $45,500: $19,000 paid, $13,000 committed, $10,000 uncommitted and $3,500 in additional approved work. Against the original $46,000 envelope, that leaves $500 before any

other surprises. It does not leave $27,000 available for new work simply because only $19,000 has cleared the bank.

I keep the total forecast beside the cash calendar. If an approved change was already included in the committed column, leave it there and do not add it a second time. Likewise, an allowance for an unresolved problem does not disappear because a change was approved for something else. Decide which specific risk that allowance was meant to cover.

A checkpoint conversation

When the site supervisor says the job is about halfway done, I ask what has actually passed inspection, what materials are on site, which invoices are outstanding and which scope items are waiting for a decision. A crew can be halfway through its calendar without completing half the cost or clearing half the risk. Ask the contractor what would have to happen for the finish date to slip a week. That question tends to reveal dependencies that a percentage on a report cannot show.

What to do when the job opens up a new problem

Suppose a bathroom demolition reveals moisture damage where the bid assumed dry framing. The crew proposes closing it up after replacing the visible drywall so the schedule holds. Before approving a cosmetic repair, find out whether the source of moisture has been identified and corrected. Have qualified people assess structural, electrical, mold or other safety concerns as applicable. Preserve photos and a written description before the evidence is covered. If access or work needs to pause for safety or inspection, establish who is responsible for that decision and for protecting the site.

Then get the dollars and the calendar on the same page. Suppose the additional scope is $5,400, the remaining uncommitted contingency is $4,000 and the added hold is two weeks at $650 per week. If nothing overlaps, the scope exceeds the remaining contingency by $1,400 and the extra carry is $1,300. The combined increase over the prior budget, including the prior contingency, is $2,700. An updated forecast should still account for any risks the original $4,000 was meant to cover. Spending all of it does not make the other unknowns disappear.

I would not take the $2,700 by deleting work that is required for safety or the intended use. I would ask what discretionary work can actually be changed without undermining the rent or resale evidence. If the planned exit is no longer supported, revisit the decision with the professionals involved. Continuing because money has already been spent is not an exit strategy.

Finish the property, not just the punch list

Before turnover, identify who checks each system, who confirms required inspections are complete and who receives manuals, keys, warranty information and records. Walk the property against the original scope and every approved change. A cosmetic punch list belongs alongside the work that makes the property ready to occupy or sell. Keep unresolved items with the responsible party and date; avoid marking them complete solely because the crew has left.

For a rental, take the verified finish date into the lease-up budget. For a sale, update comparable evidence and remaining carry before deciding how to price it. If your contractor finished on time but utility sign-off delays legal occupancy, the property is not producing rent yet. If the work

is complete but the market now supports a lower exit, rerun the deal at that value rather than counting the old projected profit.

Final field exercise

Your signed scope says the contractor installs appliances but does not supply them. You find a $2,400 appliance package, $180 delivery and $220 for connections excluded from the bid. The package arrives two weeks after the planned tenant showing date. In a simplified cash model, hold costs are $500 a week and no rent was included before the planned showing date. What changes?

The appliance-related cash outlay is $2,800. If the delivery pushes the actual lease-up sequence by two weeks, add $1,000 of incremental hold under the stated assumptions. A later showing date does not itself prove how much rent you lose. Update the expected start of rent separately based on the revised schedule. Write down who must confirm the connections, delivery and readiness dates. I would rather have an ordinary, funded plan I can actually complete than a budget that looks good because half the obligations are still unnamed.