

# How Much Do You Charge Per Square Foot?

**B**uilding a custom home is a bit like buying a new car, right? Not exactly.

If you asked a car dealer how much he charges *per pound*, you'd get some very strange looks. Of course, there is some correlation between the cost of the car and its weight, but not significant enough to prompt that question. We all know car dealers don't sell by the pound.

In the same way, I feel perplexed when someone asks me how much I charge *per square foot* to build a home. It's not the right question.

There are three factors that contribute to the cost of a home, regardless of where it's built: complexity, level of finish, and size and components.

1. **COMPLEXITY:** A home with more features and greater complexity requires more labor, and therefore costs more to build. For example, a rectangular house with four basic corners is less expensive to build than a three-story home with 40 corners, angled walls, and steep roofs, because the latter is more complex and takes more time to complete.

2. **LEVEL OF FINISH:** Obviously, vinyl flooring is much less expensive than wood or stone. Formica countertops are less expensive than granite. Twelve-inch baseboards cost more than six-inch baseboards, and a lot of molding is more expensive than no molding at all. The level of finish you choose for your home will have a significant impact on the home's final cost.

3. **SIZE AND COMPONENTS:** Size matters in homebuilding costs. A 6,000-square-foot home will cost more than a 2,000-square-foot home. A 2,000-square-foot home would probably include a two-car garage, while a 6,000-square-foot home normally has three or four bays. So not only does the larger home cost more due to the size of the heated and air-conditioned space, but it also takes into account things like garages, number and size of porches, whether the home has a pool, boat dock, circular drive, and other costly components.

It's a good idea to ask a builder what price *range* per square foot he builds at, in order to know if you're talking with the right builder.

### BOTTOM LINE

*Don't go to a Chevy dealership if you  
want to buy a Lexus.*

## Close Enough to Perfect? *Identifying Expectations*

A homebuilder's goal is to create a well-built, attractive home that meets the needs of the homeowners. But how close to perfect does the finished product need to be? What about imperfections or flaws? Brian doesn't care about details, while George is extremely particular and wants every single blemish erased—*every single one*.

What about you? What are your expectations for what you will and will not accept when your home is finally completed? This is definitely something you and your builder need to discuss.

Here's what I often do: I make an appointment to meet the new prospective homeowner at one of our recently completed homes. I have a very defined plan to walk through this new home together and thoroughly inspect all aspects of the home. We take about one hour of uninterrupted, private time without the owner present. The reason I don't want the owner present is because I've found that if the owner is there, the prospective homeowner is reluctant to look very closely at the fine details.

I meet the prospective homeowners at the newly-built home and start the inspection in the foyer. As I point out the features, I ask a very specific question. "If we were standing here a year from today and we were doing the final walk-through on *your* new home, would this meet your expectations?" Usually, my wide-eyed prospective homeowners nod affirmatively. Before I move on to the next room, I take a moment and encourage them to look closely at the finish. I tell them that a paint job can never be perfect; I may find a blemish or two on the walls or in the trim work. Then I ask again, "Would a paint job with these imperfections meet your expectations?" Usually, they say yes. Then I ask them to rub their hands over the trim work to feel for smoothness and any imperfections. I'm actually looking for some imperfections in the paint job because I want to clearly identify their expectations.

After we discuss the paint finish, we move on to trim work. From trim work, we move to drywall. From drywall, we move to flooring, and on and on it goes throughout the house. Then we walk into the living room where the same process takes place. I ask the prospective homeowner the same question, "If this was your living room, aside from the paint

colors and selections of materials would this living room and the quality of the workmanship meet your expectations?”

This process is very important. The last thing you or your builder want is to find yourself a year or 18 months into the building of your new custom home, only to discover that each of you had different expectations. I make it a point during the interview process to be sure we have clear expectations of what is or is not acceptable for the quality of the end product—your custom home. By doing so, both parties can avoid unmet expectations, frustration, anger, or even a lawsuit.

### BOTTOM LINE

*Schedule a one-hour private showing of a home your builder has recently completed. Tell your builder whether the quality meets your expectations or not.*

# Choices, Choices, Choices!

## *Choose Before You Lose*



I strongly recommend making your selections before construction begins on your new custom home—color, cabinets, plumbing, hardware, paint, and more.

Yes—all selections!

Before I learned how important this was, I noticed that homeowners often seemed unable to make selection decisions in a timely manner. Indecision messes up the deadlines, stalls the project, and can greatly frustrate both builder and homeowner.

Randy is a good example. I gave Randy deadlines for his selections and every single deadline was missed. When it was time to make his paint selection, he asked me, "Well, when do you need it?" I said I needed it two weeks ago and he said, "But when do you absolutely, really have to have it?" I told him "Friday" and he promised me he would have the paint selected by Friday.

Well, Friday came and went with no paint selection. I called Randy on Monday, and he told me he had an emergency, which prevented him from making his paint selection, but he would have it to me by Wednesday.

At about 4:00 p.m. on Wednesday, Randy showed up and began to put samples on the wall, only to find out he needed more samples to compare to his original samples. The next day more paint samples went up. Another Friday passed and Randy said he was having a difficult time making a decision.

In the meantime, we had already completed the drywall and work on the home was at a standstill. The process had lost momentum. I was frustrated, Randy was frustrated, Randy's wife was frustrated, and the painter was frustrated. Even the cabinet man was frustrated because now his schedule was delayed.

Everyone was frustrated and all the work had stopped.

The painter wasn't sure he wanted to sign up for my next job, and my reputation as a builder started to get a little shaky.

If you've ever built a home, you know it can be very frustrating and time consuming without the help of an interior designer. You take your paint color chip along with your carpet sample and drive across town trying to match your tile with a designer deco piece for your shower. Then you take those samples to the granite supply yard, drive back across town to a cabinet supply house, and swing over to the lighting store. Along the way you're bombarded with a plethora of opinions from all of the people working at all of those stores. It's not only confusing—it's exhausting!

If your builder does not have an in-house design team to help you in your selection process, then at least retain a competent interior designer who complements your style. As difficult as it may be to make your selections before you begin your home, do it—for your benefit, your spouse's benefit, your family's benefit, and for the benefit of the builder's and your relationship.

If you do this before the construction begins, the only thing you'll need to select after that is your toothbrush. You'll be able to enjoy the building process, and your builder can build your new home more effectively.

### BOTTOM LINE

*For a more enjoyable (not to mention saner) building experience, make all your selections before construction begins.*

# Wellness Home Consultants

## *Green Builders*

Both Jonathon Casada Custom Homes and Champion Custom Homebuilders are Green Builders and Wellness Home Consultants.

- **WELLNESS HOME CONSULTANTS/TOXIC HOME AWARENESS:**  
Did you know that all new and old homes have very bad air quality inside the home? Your air conditioning system does a good job of filtering some dust and pollen, but what about the toxic particles and the off gases from household chemicals, carpet, fabrics, paint, bedding, appliances, fireplaces and other areas? There is a product that can filter out most of these toxins from your home.

What about water quality? Do you know how clean your water is? Most water treatment plants treat our water with chlorine and fluorides. These chemicals kill bacteria and harmful germs in the water, but they leave in all the toxins that also harm our bodies. The chlorine is also harmful to our health by absorbing through the skin when you take a shower or drink the tap water. We have found an inexpensive filtration system that not only filters the water, but also restores the quality of the water through the Pi Mag process. For more information, please go to [www.JonathonCustomHomes.com](http://www.JonathonCustomHomes.com).

Our Green Build Program uses the most current cost-effective green materials in each home. From the beginning, we consult each client on the lot and house position and how direct sunlight will impact the home. We protect our environment and pay close attention to the survival of all trees around the construction. Our company standard features include radiant barrier attic roof plywood, insulated windows, quality insulation, and energy-efficient heating and air conditioning systems. We advise our clients to choose high-efficiency appliances. We believe protecting our environment, saving energy within the home and personal attention ensures the best quality possible and gives the new homeowner peace of mind.

### BOTTOM LINE

*Consider investing in a Wellness Home Consultant to keep the inside of your home toxin-free. The Green Build program is a great investment to help protect the environment and create an energy efficient home.*

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## The Startling Step Most New Homeowners Fail to Take

Obtaining feedback from previous homeowners is critical to selecting the right builder for your new custom home. It's a good idea for you to call a builder's previous homeowners to ask how he performed with their project. It's important to ask what the builder did very well and what some of their weaknesses were.

Of course, it's important to realize that one builder can't be all things to all people. Each builder will have some strong points, but they will also have some limitations as well. If you are looking for the "perfect" builder, I've got some bad news for you. One doesn't exist. However, if you're looking for a builder who's committed to excellence and integrity, and builds quality, custom homes, then such builders do exist.

Every builder has a unique background and unique strengths and limitations. Look for the things that matter: experience, excellence, integrity. Quality custom home builders know their own strengths and limitations. They don't shy away from them, but they work through them and provide excellent service and an excellent home—though not a "perfect" one.

Here are a few questions to ask a builder's previous homeowners:

- ↳ Did your builder finish your home on time? If not, why not?
- ↳ Did your home come in on budget?
- ↳ Was there ever a time you felt your builder was being untruthful?
- ↳ Did your builder communicate to you clearly if there were any additional charges that you would incur?
- ↳ What are your builder's best qualities?
- ↳ What are some of your builder's weaknesses and limitations?
- ↳ And the most important question: Would you have your builder build for you again the next time?

### BOTTOM LINE

*Talk to the builder's previous homeowners to understand his strengths and limitations. Also remember that no builder is perfect.*



## How Many Bids Should I Get for My New Home?

Recently I met with Ross at a lot where he was considering building a new home. About 25 minutes into the meeting, I noticed he was distracted by a car that had pulled up to the property.

I asked Ross, “Are you expecting someone?” He told me he was meeting with *six* builders that day and requesting bids from all of them. As I wrapped up the final few minutes of our meeting, Ross asked if I could give him a bid on his new home. The plans weren’t complete; there were a lot of items that needed to be corrected (the specifications, including the finishes, tile, cabinetry, countertops, etc., weren’t even defined), but he still wanted a bid from me.

I followed up with a letter to Ross affirming that I thought it was a good idea for him to *interview* six builders, but from my experience getting six *bids* was counterproductive. When all the bids came back, there would be no common basis for him to compare what was or was not included in the bids. In other words, he would be comparing apples to oranges to potatoes to carrots to tomatoes, and this would only add to the confusion of an already involved process. I suggested that Ross narrow his scope down to one or two builders that he connected with and felt he could trust, like, and respect, and put focused energy in working through the details of his new home.

A few days later at a local builders’ meeting, I ran into Steve, the builder who had arrived after me at Ross’s lot that day. I asked Steve about his meeting with Ross, and he said the project was too crowded for him. Ross had also asked Steve for a bid, and Steve was going to pass.

I’m not advocating you only interview one or two builders, but I am suggesting you narrow your search down to one or two builders. When I know there are many builders competing for the same job (especially if the job doesn’t have a clear, defined focus), I decide to put my limited time and energy where I can be most effective. That’s with people who have narrowed their scope, have a reasonably good idea of what they want, and who value what I value. Then we can put more concentrated effort into addressing their needs and concerns.

Quality, custom-home builders often don't have to bid their jobs against other builders because from the onset they have made a connection with the homeowner, discussed their fee structure, and demonstrated their competency. As a result, they can give their homeowners focused service. This is important because it takes a tremendous amount of time, energy, and focus to execute the process of homebuilding with excellence.

### BOTTOM LINE

*Interview builders first and select your builder based on trust and respect, not necessarily on the lowest bid.*

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## Excellence or Perfection?

A prospective homeowner once asked me, “Will my new home be perfect?” I told him there are two kinds of perfectionists: one who asks for perfection, but realizes life is not perfect and is very pleased with 95 to 98 percent. The other type expects perfection and is *never* happy, no matter how well a job is done.

If you are the latter, *please don't build a custom home*. Life is too short and too wonderful to take two years—or more—out of your life only to be disappointed in people and processes that are not perfect.

*People* build custom homes. *People* are not perfect.

It doesn't mean you can't or shouldn't expect *excellence*. Here are a few ways that excellence differs from perfection:

- ↳ Excellence is taking people and materials that are imperfect, and executing a process to its very highest level.
- ↳ Excellence is a home that's done on time.
- ↳ Excellence is what happens when something goes wrong and it's quickly recognized and corrected. (Trust me, when you build a custom home, things will go wrong.)
- ↳ Excellence is when your builder acknowledges his mistake and promptly corrects it without pointing fingers.
- ↳ Excellence is clear communication.
- ↳ Excellence is a quality home built with straight walls, functioning doors, and overall good quality.
- ↳ Excellence is moving into your home and having your dishwasher, garbage disposal, and gas grill all operational on move-in day.

- ↳ Excellence is a phone call from your builder if something unexpected comes up and the schedule needs to be modified.
- ↳ Excellence is having a homeowner so pleased that when the topic of homebuilding comes up he says, “Let me tell you about my builder.”

Planning, designing, and building a new custom home for you and your family can be an exciting, rewarding experience if you select a competent builder who is committed to *excellence* and you have a clear understanding of each other’s expectations. Homebuilding can be a miserable experience if you are a perfectionist who is unhappy even if your builder builds to excellent standards.

### BOTTOM LINE

*If you require perfection, don't build a custom home.*

# Why Picking the Right Builder Is Half the Battle

**H**ow important is it to choose a good builder? It's #1 on the list!

You will have a lot of decisions to make as you build your custom home—selecting colors and finishes, determining size and layout, and more. But no decision will impact your homebuilding experience more than the all-important decision you'll make right at the start. You need to choose a great builder!

The fact is you can't do a good deal with a bad person. No matter how hard you work, you can't make a silk purse out of a sow's ear. The same is true with your builder. Here are the three most important qualities to look for in a builder for your custom home:

1. **TRUST:** Building a new home is probably one of the largest investments a person will ever make. If you don't believe your builder has your best interests in mind, you're talking to the wrong builder. You want a builder who works on your behalf, not someone who is only looking out for his own interests. When you call your builder, will you get a straight answer? If something goes wrong on your job, do you trust your builder to make it right? Believe me, when you build a custom home, there will always be bumps in the road no matter which builder you select. There isn't a contract written yet that will cover every possible condition that you may encounter while building your new custom home. Ask yourself: *What is your builder's intent?* If his internal compass is pointing north (with intentions to do the right thing, even when it's difficult), you're halfway there.

2. **COMPETENCE:** Does your builder have the ability to see and execute your home from start to finish? Is he able to walk you through the concept and design stage to produce a home that will reflect your needs, wants, and lifestyle? Does he have the right interior design team to complement your taste and preference? Does he have the right office staff that will politely and professionally respond to your needs and questions? Does he have an on-time, competent construction team to oversee the building of your new custom home? Does your builder

have systems and procedures in place that will allow him to execute the building of your home in an excellent way? Does your builder have a reputation and history in the community that speaks well of his business?

**3. FAIR PRICE:** Does your builder charge a fair price? Most people start by looking at cost first. While price is certainly important, it's not nearly as critical as trust and competence. That's why I put this quality last.

If you know your builder is charging you a fair price for his services, and if you know he is trustworthy and competent, *look no further*. You have found your builder. Hire him and begin to focus on how to make your dream home a reality.

### BOTTOM LINE

*Look for trust, competence, and fair pricing in selecting a builder to build your custom home.*

# How Do You Avoid a Builder Scam?

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**W**e hear of new scams all the time. You can hardly pick up a newspaper these days without reading about some unscrupulous people devising a new scam to take advantage of unsuspecting people. While this may be true, it doesn't mean *you* have to become a victim. Knowing what signs to watch for can help keep you out of trouble. Pay attention to these warning signs:

**TOO GOOD TO BE TRUE:** When a builder gives you a price that sounds too good to be true, be wary. If a builder says yes to all of your questions, walk away. If you ask him if something is included in his price and he ALWAYS answers yes, be cautious. It can't ALL be included! If it sounds too good to be true, it probably is.

**TOO FEW REFERENCES:** If a builder is only willing to give you two or three references, you should wonder why. Any builder can give you a few references, although it may be his brother, cousin, and very best friend. Make sure the references you get are recent and credible.

**RUSH TO CONTRACT:** If a builder is trying to get you to rush to sign a contract with him, you should see red flags waving and a caution light going off. Building a custom home is a big decision, and if you're rushed into signing something, you could be in for some big surprises later.

**CHECK ONLINE RESOURCES:** There are online resources available where you can verify some important information on the builder. In some states, you can do online verification of a builder's credentials and license, verify how long he has been in business, the tax ID number, search for liens, and to find out if their workers compensation insurance is current or has ever been cancelled. Another good resource is your local Better Business Bureau.

**VAGUE SPECIFICATIONS:** If the specifications are vague (type of material, quality, and finishes for your home), and/or incomplete, ask that they be made specific. Vague specifications leave a lot of room for interpretation and are one way a scammer can argue later. If you sense your builder is being vague or giving you specifications that are incomplete, consider getting a bid from another reputable builder to compare the specifications from each builder. This will help you raise your level of confidence in the builder you choose that he is being honest and forthright about what he is and what he isn't providing in his proposal for your new home.

**INSUFFICIENT ALLOWANCES:** One of the most common ways that a builder could present a price that is too good to be true is to knowingly or unknowingly include allowances that are insufficient to complete your home as you expect it. The allowances provided should mean something to you. You should have a good sense as to what your allowances will buy. In researching your allowances, if you find that the level of quality that the allowances provide are consistently less than what you and your builder discussed, be wary.

A little healthy skepticism is a good thing. Respect and trust are earned and you want your builder to earn your respect. If you have any suspicions at all that a builder is trying to scam you, do not sign a contract with him even if it means you have to start all over again with another builder. When it comes to building your new home, trust is everything.

### BOTTOM LINE

*Make sure your builder earns your trust and respect  
before you sign a contract.*



# Financial Smarts - Part 1

## *Where Do I Start?*

When it comes to paying for your custom-built home, do you know where to find your financing? Many don't. Should you peruse the Sunday papers looking for the best deal or stop by your neighborhood bank to see their rates? Do you need a mortgage lender or a mortgage broker? When it comes to finding the right home financing plan, it's really all about dollars and sense.

First, let's define the difference between a mortgage lender and a mortgage broker. Most mortgage lenders can be found at a banking institution. Their services are provided as a bank service. A mortgage broker, on the other hand, charges fees to go out and find a lender for you based on your specific financial qualifications. As a custom homebuyer, you should look for a loan officer who has experience in construction financing with the education and experience to match the banking institution. The best and most reputable lenders won't be found by scouring the Sunday papers to find the lowest rate. If you're seeking competitive rates among several lenders, don't just focus on the price. While one lender may offer a terrific rate, you may be sacrificing speed, service, or their ability to actually help you acquire a loan.

The best place to start is to ask your builder who he uses. Like his vendors and subcontractors, he should be working with a reputable competent loan officer. You may want to ask your friends for referrals as well. In these volatile market conditions, it's wise to have a trustworthy loan officer with sufficient experience to guide you down the path of one of the biggest financial decisions of your life. A good question to ask up front is whether the loan officer will be working with you during the entire process, or will you get passed off to another person in another department.

Once you've narrowed your choice, you'll want to meet with your loan officer to determine what size loan you qualify for to build your custom home. You'll need to fill out a loan application that will focus on three key areas: your credit, your debt-to-income ratio, and your liquidity (assets and retirement reserves). While the application can be filled out and sent back by email or fax, it's probably better to take the time and fill out the forms in person. Block off at least an hour to do this and answer any relevant questions your loan officer may have. This is where all of your time spent organizing and filing will pay off. You'll need to bring the most recent copies of pay stubs, your W2 forms, and two previous years' tax returns.

Also bring your most recent statements of checking and savings accounts, retirement funds, IRA account information, and other assets that show your financial strength. Loan officers advise clients to disclose all of their assets on the application form to give the most flexibility in arranging loan approval.

One of the items that will determine your ability to obtain a loan is your credit score. A credit score is a number that is determined by the three major credit-reporting agencies (Experian, Equifax and TransUnion) and is based on historic and current data that determines your credit risk. These numbers are not set by the mortgage lenders or by the banks. Your credit report is your financial thumbprint: every purchase you've made, every bill you've paid (or didn't pay), and every loan you've applied for (car, mortgage, etc.) is logged on your credit report. A credit report is used to determine an individual's credit worthiness. Credit scores range from 300 to 850, and the higher your credit score, the more desirable you look to a financial institution for a loan. Keep in mind, the higher your credit score, the lower the interest rate you can probably get.

It is a good idea to check your credit report before applying for a loan to check for any inaccuracies, especially if you have a common name. Before applying, you may also want to pay down as many debts as possible to help improve your income ratios. Also, the major credit bureaus offer services that will educate you on how to increase your credit scores. They are the experts. Remember, your debt-to-income ratio and credit score are important factors when qualifying for a mortgage loan.

When you are ready to submit the completed application and supporting financial documents, **you may be required** to pay \$300-\$500 to process your application with the lender. Once all of your financial documentation is turned in and reviewed, the loan officer will submit the application to the underwriter for approval. It usually takes 3-5 days to hear whether you've been approved or denied for the loan. An approved loan will usually come back with a capped interest rate for a specific period of time (30, 60, or 90 days). Once you receive the call from your mortgage loan officer with the good news, you're on your way to the next step of the financial process.

### BOTTOM LINE

*Ask for referrals from your builder and friends to determine the best lender for your financial needs.*

## Financial Smarts - Part 2

### *What Loan Is Right For Me?*

Once you've been approved to receive a new loan to build your custom home, the next step is to determine the best loan for your needs. There are a variety of loans to choose from, each with their own set of rules and terms. Your loan officer can walk you through all of the options and help you choose the right one.

If you're building a custom home, you'll want to consider a "Construction-Permanent" loan. A Construction-Permanent (or Construction-Perm) loan has two phases: the construction phase and the permanent phase. The construction portion of the loan funds the construction activities during the building phase of your home. In this phase, you will make monthly payments based on how much money is drawn from the lender. As construction progresses, more money will be drawn from the loan. If you'd like to know just how much money is due and when, your mortgage lender can print out a spreadsheet detailing a fairly accurate estimate. With a construction-permanent loan, there is one set of closing costs that are paid at the front end.

During the construction phase, builders will typically receive a deposit when the contract is signed, and then will draw from the loan during the following stages: slab pour, framing completion, drywall completion, cabinet completion, and the last draw will occur when the home is completely done. All draw requests will be signed by the builder and the homeowner before the draw request is sent to the bank for draw payment. An independent inspector hired by the lender will come out to the construction site at each of these stages and check on the home's progress so the lender can release more money to your builder. Keep in mind, they will **not** check for quality-only to see if the builder is on schedule to receive payment.

When construction is complete and a Certificate of Occupancy is issued, the loan modifies from a construction-permanent loan to a permanent loan. At this time, monies for homeowners insurance and property taxes are due into an escrow account. This usually ranges from 1.5 to 2 percent of your loan amount. Your lender will draw up the final papers that confirm the construction phase of the loan has ended and the permanent phase of the loan is beginning. The final check is made out to the builder and he will issue an all bills paid affidavit. There are typically no additional closing

fees with the permanent loan.

Another option to consider for a loan is using your builder's financing source. Some builders offer special financing packages. Be sure to ask your builder if you qualify for that option. Using a builder's financing can be just as effective as using a bank loan. Generally speaking, it's easiest and fastest to go with your builder's financing source if they are competitive in the market.

But what if you're not building a custom home? What if your builder has a home that's already done and you'd like to buy it and move in immediately? This is the most common situation for homeowners. You will need an end loan. You can still determine whether you want to have a fixed, adjustable, or interest-only rate with an end loan.

Be sure to talk with your mortgage lender about your expectations.

### BOTTOM LINE

*Determine the best loan for your financial needs  
after discussing the options with your loan officer.  
With so many programs and options available,  
choose the one that is right for you.*

## Financial Smarts - Part 3

### *Should I Get a Fixed, Adjustable, or Interest-Only Loan?*

Many new homebuyers feel confused about all the options they have when it comes to loans. Which one is best: fixed, adjustable, or interest-only? A mortgage loan officer should be able explain the benefits of each in detail, but here's a brief overview to get you started. Let's begin by looking at the advantages and disadvantages of the three most common types of loans.

A fixed-rate loan has an unchanging rate for the life of the loan (15, 20, 30, or even 40 years). Your payments will be the same set amount every month for the length of the loan. The fixed-rate loan is the most common type of loan available on the market today. The advantage is that you always know your monthly payment amount. The total of your principal and interest payment will never change.

An adjustable-rate loan is fixed for a certain amount of time, then the rate resets and adjusts itself based on several market indexes and interest rate caps. Sometimes the rate adjusts up, sometimes it goes down. Most people understand this kind of loan is more risky, but there can be some benefits to choosing an adjustable mortgage loan:

1. If you plan on selling your home within 2-5 years (prior to your interest rate adjusting), this can be a good loan.
2. If you don't have much money now, but you expect your income will go up after several years—say from bonuses or commissions—and it will be easier to make higher payments then.
3. If you're only able to put a certain amount of money towards your housing budget.
4. If your financial creditworthiness doesn't allow you to qualify for a fixed-rate loan.

Lastly, an interest-only loan means you only have to pay the interest that is due each month, and are not required to pay on the principal balance for a set amount of time. For example: on a five-year interest-only loan, the amount you owe on your principal in the fifth year is, most likely, the same as when you first took out the loan. This type of loan works well for homebuyers in three cases:

1. If you intend to pay down the principal on your own terms.
2. If you plan on moving out of your home in a short period of time.
3. If it's an appreciating real estate market. Note: the disadvantage is if you are in a depreciating market, your home may be worth less than what you owe at the end of the loan term.

The interest-only loan was designed for people who want to set their own terms and pay down the principal as they see fit. One word of caution: it takes a disciplined homebuyer to correctly use an interest-only loan.

### BOTTOM LINE

*Determine the best terms for your financial needs  
after discussing the options with your loan officer.  
With so many programs and options available,  
choose the one that is right for you.*

## Financial Smarts - Part 4

### *How Do I Know What My Closing Costs Will Be?*

After determining the best loan program for your needs, your loan officer will draw up a one-page document that lists all of the costs associated with the loan. This document is called a Good Faith Estimate. The estimate lists all the charges you as a homebuyer will have to pay at the time of closing. Don't be surprised if some fees are slightly higher or lower when you finally come to closing. Each lending institution has slightly different charges, which is why the document you are initially given is called an *estimate*. The Good Faith Estimate is a requirement by all financial institutions as part of the Real Estate Settlement Procedures Act of 1974. If you don't receive one from your lender, be sure to ASK!

A typical Good Faith Estimate includes all of the lender and underwriting fees as well as other charges by the state or county. Each state is different and prices vary around the country. Some lenders will waive certain fees if you ask, but some fees are locked and will not be removed.

Usually, the first line on the Good Faith Estimate is an application fee or deposit (that fee you already paid when you pre-qualified for a loan). Next are underwriting fees, which average around \$500. If you choose a construction-permanent loan, there will be several charges listed for inspections. Typically the inspections cost \$50-\$75 each, and you'll be required to have at least 4-5 during the construction phase. That adds up to around \$450. Additional fees will be added for appraisals, and typically the lender will require at least two.

Title insurance is another requirement each homebuyer will have to purchase. It protects the homebuyer to make sure no one else can come and take the property from you. The title company will run checks on the title to make sure its clear. If someone does try to claim the property, the title insurance policy protects the homeowner.

Some states require documentary or documentation stamps. Documentary stamps are simply the state charging a percentage on your mortgage note. This is one of those charges that can't be removed from the Good Faith Estimate. Another required payment to the state is intangible taxes. Intangible taxes are based on the mortgage amount. Both of these taxes have to be paid before a property is deemed legal. **These costs are a small percentage of your loan amount.**

Other miscellaneous charges include recording fees by the county to record the home's deed and mortgage note. These usually cost around \$200. If you are building a custom home, some lenders will require a survey of the land before construction can begin. There may be additional fees that come after the survey, depending on the condition of the land.

This is not an exhaustive list of all the fees, but it will give you a quick snapshot of what it takes to close a loan. All of the costs on the Good Faith Estimate are one-time fees and required to be paid by the homebuyer at the closing of your loan. If you are unfamiliar with any fee, have your lender explain them to you in detail.

### BOTTOM LINE

*Be sure to ask for a written Good Faith Estimate from your lender outlining all of the fees associated with closing your home loan, and be certain to ask for an explanation of any items you do not understand.*



# Welcome to Art Class!

## *Create a Dream Home Notebook*

Now you get to have some fun! While you continue to dream about the possibilities for your new, custom home, let's create a "Dream Home Notebook." Gather some magazines and tear out pictures of features you really like or want in your home and, just like you did in art class, start collecting them in a notebook. You may also want to take photos of features in other homes you have walked through. Model homes, friends, or neighbors' homes can be great sources of ideas. Write on each picture specifically what it is you like about it. Why did you tear it out? People often begin collecting pictures, but months later they can't recall why they tore it out in the first place. Write it down.

Creating your Dream Home Notebook can be an inspiring and enjoyable activity, and it will be very helpful to your builder and design team. As you accumulate more and more pictures, begin to categorize them. Here are some suggestions for your categories:

1. Exterior features
2. Kitchen features
3. Master bathroom and bedroom
4. Common living spaces
5. Specialty items such as fireplaces, mantles, trim details, paint colors, etc.
6. Colors, textures, styles
7. Any floor plan that interests you. Write down what interests you about a particular plan. It may be the relationship of rooms, the uniqueness of design, or even a small feature like a hidden pantry or a workstation for mom.

## 8. Things you specifically DON'T like

## 9. Your written notes

Sometimes it can be difficult to express what you like and don't like in new home features. So the Dream Home Notebook is a helpful resource in the planning process. The saying, "*A picture is worth a thousand words*" also applies to the development of your custom home design. An experienced builder can look at the pictures and listen to the conversation (and often read between the lines) to help you better articulate what you are thinking but are unable to put into words.

It's also helpful to write down your expectations. You may want to include stories (good and bad) of what your friends have gone through in their homebuilding experience. Also write down the elements in your home that are important to you. When you finally meet with your builder, you will have a well-organized, thoughtful notebook to share, which will help tremendously in your design and building process.

### BOTTOM LINE

*Cut out or take pictures for your dream home and organize them in a single place along with your notes on what you really want.*

# Don't Even Begin Designing Your Home *Until You've Done This!*

There is an ancient proverb that says, "*Suppose one of you wants to build a tower. Will he not first sit down and estimate the cost to see if he has enough money to complete it?*" I suppose it's because I'm a builder, but I can relate to this bit of wisdom. It's a rhetorical question, of course. Who *wouldn't* first estimate the cost?

In reality, it sometimes amazes me to meet with people who are ready to build a new, custom home but have no idea what they want or how much they can spend. Stop right here! It's crucial, before beginning the design/build process, to determine what you can afford.

People who need financing assistance should talk to an experienced professional mortgage lender who can help determine what they can comfortably afford. This process will take into account your income, expenses, credit, assets, interest rate, taxes, insurance, maintenance, and utilities.

Sadly, people who begin the design process without first counting the cost often design to their dreams, only to find out later they have far exceeded what they can afford. They end up mad, sad, or extremely frustrated. Instead, we first want our homeowners to realistically determine what they can afford; then we work hard to design a quality, custom home, a complete package that's 5 to 10 percent below their target number. We know from experience that changes may occur during the building process. For instance, homeowners may upgrade the finishes as the construction process unfolds, or other variables may arise that would add to the cost of their home. If we start with a number that is below their budget, we can end up at the desired budget.

## BOTTOM LINE

*Know what you can afford before you begin.*

# Needs Vs. Wants

## *How to Use the Design Outline to Prioritize Yours*

One of the best things a homeowner can do is to thoughtfully consider the difference between *needs* and *wants*. It's more difficult than it sounds. For example, something that is considered a *need* to one family member may not be viewed that way by another. Sorting between needs and wants can sometimes be contentious. Take Tim and Sherri for instance. They debated for 45 minutes on whether or not they wanted a formal living room. Sherri, who was raised in a home that frequently entertained guests, considered it a need. Tim, whose idea of entertaining guests was to take them to the game room, did not consider it a need. In fact, Tim felt a formal living room would be largely wasted space.

Discussions like these are far from unusual when building a custom home. They are normal—even essential. I encourage couples and families to have these discussions as soon as possible so that decisions can be made before a lot of design work is done. But how can you have those discussions and make them productive and even enjoyable? By using a simple tool called the Design Outline.

The Design Outline is an excellent tool to help you define your needs and wants in the home building process. This exercise takes less than 30 minutes to complete, but it can save you countless hours and thousands of dollars.

Here's how it works:

1. You and your spouse, independently of each other, each take a blank sheet of paper and write down all of your dreams, wants, and needs for your new home, in no particular order.
2. Then rank your items in order of importance, starting with #1, #2, #3, etc. It's not as important to agonize over whether item two goes before item three, or three before two; sometimes wants or needs can be equally important to you. What's important here is that #3 and #28 are not reversed. Know what you want.
3. Once you and your spouse have independently ranked your items, the two of you meet together to share and compare your lists. Then create one combined list ranking your needs and wants in order. This will become your master list.

The combined needs/wants list will save time, energy, and money when you meet with your builder to determine the cost of your new dream home. At some point, your desired budget will need to line up with your desired wants.

Your builder can review this combined list and your budget and let you know what items your budget can afford. If you have items that are not included in the budget, your builder can estimate a cost so you can make an informed decision on whether or not you want to increase your original budget.

The Design Outline can be a tremendously effective tool to help you determine costs long before you spend money on design or construction of your new custom home. You can use the Design Outline with any builder, anywhere in the country. When you begin the process by using the outline, you'll be way ahead of the game.

**DESIGN OUTLINE™**

Name:			
Address of Property:			
Lot#:	Cost of Lot:	Value of Lot Today:	
Estimated budget for home excluding lot and financing costs:			
Number of Bedrooms:		Number of Bathrooms:	
Approx. number of square feet under air:			
Number of Stories:	One	Two	Bays in Garage: Two Three Four

**COMBINED LIST OF PRIORITIES**

1.	11.
2.	12.
3.	13.
4.	14.
5.	15.
6.	16.
7.	17.
8.	18.
9.	19.
10.	20.

**BOTTOM LINE**

*Take 30 minutes and complete the Design Outline. It's fun and it can save you countless hours and thousands of dollars.*

# Where Should I Spend My Money?

*If You're Going to Err, Do It Here*



**B**uilding a home is probably one of the biggest investments you'll ever make, so you'll want to know where to put your money to get the most value for your investment. Here are seven areas to consider:

**LOCATION:** You've heard the adage "location, location, location." This is where to spend your money. You could build a home with a great design and with great features and finishes, but if you build it in the wrong location or on the wrong lot, you could be in real trouble. Consider purchasing the most expensive lot you can afford. Historically, village half-acre or 1-acre tree lots, gated communities, waterfront lots, golf course communities, the closeness to the city, or excellent schools or churches will all make your long-term investment more sound. Talk to your builder or realtor for expert advice on the best location for you.

**DESIGN SERVICES:** You can add enormous value to your home by investing in the services of a competent architect designer and an interior design team. Not only will you enjoy the splendor of a fabulous home, you will find a greater return on the money you spend for these services at the time of resale.

**KITCHEN:** Most buyers don't complain about a kitchen being too large, too much counter space, or too many cabinets. Spend money on the kitchen. We'll talk more about this topic later. Keep in mind that the kitchen is the most costly part of the home.

**FAMILY ROOM:** Oversize, don't undersize, your family room. Families tend to gather and spend most of their time in the family room. If you were to oversize any room, make this room a little larger (rather than smaller) than you think you need.

**MASTER BATH:** This room is the owner's retreat, a place to relax and unwind. Upgrade your master bath's size and finishes. When you sell your home, this will be an important feature and provide a good investment

return. Keep in mind that this area is the second most costly part of your home.

**ROOM SIZE:** Make sure your rooms are large enough to meet your needs. It's very expensive to come back after your home is finished and add twelve or eighteen inches to a room because you've just realized it's too small. If you're on a limited budget, it's better to hold off on some of the finishes than cut down the size of your rooms. You can add finishes later, and the cost may only be slightly higher than if you installed them during the initial construction process.

**CLOSETS:** Never underestimate the value of roomy walk-in closets, linen closets, and laundry rooms.

### BOTTOM LINE

*Invest your money in the seven places that matter most,  
and you will experience great value for years to come.*

## What's So Important About the Kitchen Anyway?

When a couple buys or builds a home, they always seem to pay a lot of attention to the kitchen. With most couples, there's usually one person who loves to cook; most often it's the woman. But for everyone, male or female, young or old, the kitchen is one of the most important rooms in the house. The kitchen is often the hub of the home, the center of activity. Someone spends time preparing food, creating something fun, or trying a new recipe in it. People tend to gather where there's food.

So don't miss this: kitchens are important!

Men sometimes underestimate the importance of this room. We love our garages, grills, decks, and patios. But the kitchen? We can completely miss its importance.

It's important to remember when you are designing a home to consider the resale value and design accordingly. A well-designed and functional kitchen not only makes the cook happy, it also ensures a greater resale value.

A person who loves to cook or create culinary masterpieces for family and friends absolutely needs a spacious and well-appointed kitchen. On the other hand, if a cook wants to spend as little time as possible in the kitchen, then your design and layout can be simpler. Kathy doesn't spend much time in her kitchen, but she likes the spacious layout so she and her husband can be there together. Kathy says the chopping and stirring are more enjoyable with her husband there. Additionally, he likes the organization of a well-planned room.

When selecting kitchen cabinets, look for quality. This is not the place to be overly consumed with trying to save money. Well-made cabinets will provide lasting pleasure and functionality for decades. Drawers (as opposed to cabinets with doors) are more useful and efficient even compared to cabinets with pullout drawers. In addition, choose hard surface, durable, and high quality countertops. There are a variety of colors and selections available. Granite is an ideal counter surface for the most important room in the house.



What about appliances? Don't skimp here either. You don't have to purchase the absolute top of the line, but good quality appliances help sell homes. Today it's becoming very popular to have two dishwashers. Often the cost of an additional dishwasher is only slightly more than the cost of the additional cabinetry it replaces.

In order to make the most important room in your house spectacular, consider adding some of these other features: warming drawers, double ovens, convection microwaves, pot fillers, espresso and coffee bars, hidden pantries, elevated dishwashers for easy access, vegetable sinks in the island (in addition to the main sink), instant hot water dispensers, and purified water faucets.

When you design your home, be sure the kitchen is given special consideration and that its relationship to other rooms, functions, and features are the best you can provide. It will make a difference for years to come.

### BOTTOM LINE

*Don't treat your kitchen like any other room in your home. This is one room that deserves special treatment.*

# Custom Designing Your Home?

*Read This Before You Decide*



After meeting with your homebuilder, ask his opinion on which architectural designer to go with.

Then when you have finished deciding with your builder on your concept of your new home—elevating, concept floor plan and material specifications—and agree on a rough estimated price, you are ready to move towards the architectural design. Bring your builder with you to help explain the custom concept of your home and the materials to be used. Do not forget to bring your new home decision notebook to the meeting. Bring a survey or plot plan of your lot to the first meeting with the architectural designer. You will also need your subdivision deed restrictions that will show setbacks and building easements. The architect designer will know each city or village restrictions for your location.

Know your approximate room sizes and bring pictures, but be careful not to confuse this process with too many photos; keep it to as few as possible. If you're organized and have a binder notebook with dividers it will help in designing and later decorating your new custom home.

## BOTTOM LINE

*If you can find a ready-made plan that requires few or no changes and you just love it, then you may want to consider purchasing a buyer-ready plan. If not, don't make the mistake of cutting and pasting.*

## Design Your New Home with Resale in Mind

Who thinks about resale value when building a home? While it may seem odd for a person who's building a new home to think about selling it, it's important to address what you want and what the market wants even in the initial planning stages. If you're not careful, you may design your dream home and find that no one else will buy it later!

Most people who build custom homes are financially sound. For the most part, they are able to build beautiful, quality homes because they've been making good financial decisions for many years. As you go through your design process, be certain you get wise counsel from your builder, designer, and possibly a real estate salesperson to be sure you're not building a home that only your family will like. Balance your wants and needs for the home of your dreams with potential market appeal for future resale.

You are probably not building your dream home as a spec home (a home without an end buyer before construction begins, generally built with an intended profit), so be careful not to include design features that are not what the broad market is asking for. An experienced builder will guide you through the design process and help protect your investment. Once you have the facts, it's your responsibility to make your own design decisions. If you proceed to design and build a home that only appeals to a very narrow market, then at least you are aware of that (and the consequences) in the early stages of the design process.

Sometimes homes linger on the market for a long time because a homeowner made design decisions without taking into account the long-term resale effects.

### BOTTOM LINE

*Find the balance between what you want and what the market wants.*

## You're Going to Live Here HOW Long?

If you ask someone who is ready to build a new home, they will often tell you that “This is the last home I will ever build. They will have to bury me in the back yard.”

Recent surveys show that most people live in their home an average of five years, and you're probably not much different. You may be thinking, *but this really is going to be my last home.* And if it is, that's great. But you may want to consider the reality of averages.

Susan took more than a year to design her new home for her family, only to discover she was way over budget. She also realized that by the time she completed her home construction, all but one of her five children would be away at college, and she had designed bedrooms for each of them! Reality finally dawned on her—within a few short years, she and her husband would be empty-nesters. Designing her home for a family of seven thinking this would be her home for the rest of her life didn't fit the reality of Susan's imminent transition to a home for two.

When designing your custom home, first design for your immediate needs. Second, take into account what market conditions will allow for your particular home design. Third, give strong consideration to how long you may live in your home. Susan may shift gears and design a home that's perfect for her family's needs for the next five to seven years, with a plan to downsize at that time. With this more realistic outlook, she may give additional consideration to the resale value of her choices.

Don't make the mistake of over-designing a home that may become obsolete for your family within a short period of time.

### BOTTOM LINE

*Be realistic about your short-term and long-term needs and how long you will live in your home, and design accordingly.*

## Will I Go over Budget?

If you're like most people, yes, you will probably go over your budget.

On the way home from work, I occasionally stop at the grocery store just to pick up a couple of quick items. As I get out of the car, I'm thinking I'll be in and out in five minutes.

Twenty minutes later, I'm standing in the checkout line, my arms filled with items I never intended to buy. The watermelon was on sale, the blueberries were a two-for-one special, there's a new brand of chips that looks delicious, and on it goes.

Now I'm standing in line with my arms and fingers filled with items wondering what I came here for in the first place. Oh yes, a gallon of milk and bananas! I have to set the items down and run back to the dairy department because I forgot the milk! Does any of this sound familiar? Most likely you've been there before. The same thing can happen with the new homebuilding process if you're not careful.

As you shop for the latest and greatest appliances, you may find it enticing to upgrade. After all, it's only another \$840. And the carpet is only \$2.00 more per square yard than your budget planned. Then you decide that you really need nicer plumbing fixtures, upgraded light fixtures, and so on. I've found that it doesn't matter how high the budget is we help establish for our homeowners. If you're not careful, you will quickly exceed your budget. If you have an appropriate electrical fixture allowance of \$20,000, for example, and I increase it to \$30,000, it's still easy to overspend.

Here's what I know: Even if we bumped up every budget by 30 percent, most people would spend more than their budget allowed.

### BOTTOM LINE

*Hire the right builder, establish a realistic workable budget, and then determine if you are, or are not, going to stay within that budget.*

## What About Storage?

If you are like most Americans, you accumulate stuff. Stuff takes up space, sometimes a lot of space. Over the years, you may have accumulated things with sentimental value, seasonal items (decorations you use once a year), or extra playthings for those wonderful visits from the grandchildren.

In the homebuilding process, many people fail to take into account their need for storage, and if they do, they generally underestimate the amount of storage space they will need. In a new home design, people are generally willing to pay more for a home with adequate storage than a home with more finished space that's seldom used (e.g., extra bedrooms). Adding storage space can be accomplished in the early design stages if your builder knows this is a priority for you. The additional cost is minimal as long as your builder knows well ahead of time so he can direct the designer accordingly.

If you live in the north, you know that most homes are built with basements, which are an excellent place for storage. However, for homes along the coast, basements are rare; instead, attic spaces are often used. Some people want a separate structure and storage sheds can be planned if requested. Another common storage solution is to create spacious walk-in storage closets within the home itself.

It's easy to create storage space in a walk-in, easily accessible, partially finished attic. Access is often located on the second story with entry from a common area such as a game room or shared space.

If you're building a one-story home, a common place for storage is the attic space above the garage. Your builder can make changes to roof framing to allow for light storage and easy access above the garage.

You should consider our country's demographics of an aging population, and be sensitive to the safety of using a pull-down ladder to access attic space. Upgrading these access ladders to light commercial aluminum ladders is money well spent for the safety and ease of access for you and for any future homeowners.

You can also design attic spaces above garages that have their own separate set of stairs. The stairs are much safer than pull-down ladders; they are often not carpeted and have a very simple handrail for safety. This is an additional, value-added benefit not only for the homeowners' safety but also for resale value.

It's important to think through your storage needs as you begin to design your new custom home.

### BOTTOM LINE

*Don't forget about storage. Tell your builder how much of a priority storage is to you and look for opportunities to create inexpensive storage space.*

## The Terrible Truth about Building Beyond Your Means

Sometimes homeowners want to build a home that doesn't seem to be affordable for them; it's well beyond their means. That's a tough situation for me because if I build the home the way they want, I know they'll regret it. On the other hand, if I don't, they won't be happy with me. In fact, I've sometimes lost building opportunities simply because I want to be straight with people when it appears they're pushing the envelope of costs.

Of course, I know I'm not my clients' keeper regarding how they spend their money. But as a professional who values integrity, I believe I have a responsibility to share the cold, hard facts of the large investment they will be making in building a home. Some people begin the design process with a realistic budget that's within their means, but as the process moves along, it can begin to get out of hand.

If you've purchased a new car recently, you know what I mean. Say for example, you want to get a nice car and you decide your budget is \$30,000. Once on the lot, you see the base price on a model you like is \$34,000. *Well, it's only a few thousand more*, you think. But then you start noticing some of the options. You really like the upgraded 10-disc CD changer (only another \$1,000), and it's just \$19.80 a month more on your monthly payment. Of course, then you see other cool things like the GPS Navigation System, the backup camera, and the Premier Audio System—so you add another \$6,000. You also decide to upgrade from the standard leather package to the heated and cooled, comfort leather seats. That adds \$2,160, but it's so incredible! Then you discover the Satellite Radio System, and add \$486. Finally, you decide to add a sunroof, custom paint, and upgraded tires...

You get the picture.

In a matter of minutes, your \$34,000 car became a \$45,000 car. And remember, you started out looking for a car that would cost \$30,000.

That's what it's like for some homeowners who design and build a home. Construction hasn't even started and already they've added options and selections to their home beyond the original plan. Sometimes people stretch and stretch financially to build their new home and, by the time



construction begins, they're under so much stress that when we have an opportunity to add a nice feature to their home (something as simple as additional crown molding), they are completely stressed out because of a few hundred dollar decision. That's often because they didn't discipline themselves to stick to a reasonable budget.

Please don't build a dream home you will have to sell before you even move in because you can't afford it.

Be sure you have a builder who will help guide you through this process with honesty and professionalism. If I notice that costs are beginning to exceed the homeowner's budget, I tell them that it's my responsibility to communicate this to them. The final choice is up to the homeowner. Ultimately, I want them to be happy *and* financially healthy with their finished dream home.

### BOTTOM LINE

*Build within your means so your dream home doesn't become a financial nightmare.*

## Surprises That Could Inflate Your Custom Home Cost

Early in the design process, your builder should work with you to create an estimated line-item budget for your home. Each item (landscaping, appliances, flooring, etc.) should be listed separately with a corresponding dollar amount (allowance). The line-item budget should make sense to you, and the numbers should be in line with the general caliber of work you've seen in other homes this builder has completed.

Interestingly, an allowance (or budget) can be your friend or it can be your worst enemy. Good, honest, quality builders may lose jobs to the competition because they establish a realistic allowance that truly reflects the scope of the entire job. Conversely, many builders will establish low allowances that are insufficient to build the home with the quality expected. Be wary of a budget that seems too good to be true. You could be talking to an unscrupulous builder who says whatever he has to say to get your business.

Allowances are established by builders because selections are not always made prior to the commencement of building a new home. If a builder provides an estimate for a new home and purposely or unknowingly lists allowances that are not sufficient for the quality expected, the initial bid can be thousands, if not tens of thousands, less than an honest builder's proposal.

The last thing anyone needs is to be in the middle of construction with insufficient allowances to complete the home. A good, quality builder will put a lot of effort into listening to what a homeowner values and then designing a complete home package to meet those needs. He will try to establish budgets (allowances) that allow the homeowners to select items that are in line with the level of quality they want for their home.

One of the biggest challenges for a homeowner and a builder is to identify a sufficient allowance and how all those numbers and allowances play into an overall budget. A major key to a successful project is to take the desired overall budget, consider the needs and wants of the homeowner, and create and execute a home that the homeowner will be happy with for years to come.

After listening to the needs of the homeowners, a builder will establish allowances that are appropriate for that home. After that, you should do some shopping at selected vendors before you sign a contract. This will allow you to get a sense as to whether the allowances are sufficient. If the allowances are not sufficient, you either have to raise the overall budget or reduce allowances or features in other parts of the home. It's important to do this *before* construction begins. If determining allowances happens *after* construction begins, it leaves room for misunderstanding and frustration.

### BOTTOM LINE

*Know what your allowances will buy for your new home before you sign a contract.*

## The Hidden Pot of Gold in Your Pocket

When I work with people on a homebuilding project, sometimes couples come to me with a maximum budget for building their new home. They plan a budget for the lot, the home, and architecture—a complete package. When I review it with them, I spend a considerable amount of time listening, asking questions, and working to meet their particular budget. I want to make sure we maximize their investment.

Many times, however, I'd work fervently to create a design, size, and features to meet the homeowner's needs and wants within the budget they presented, only to find out later that they had a hidden "pot of gold" in their pocket; they had more to spend than they let on originally.

That approach has always seemed counterproductive to me. After spending countless hours working to meet their budget, and THEN learning the couple actually has an additional amount to spend, we essentially have to go back to the drawing board to start the design process all over again. Not only is it frustrating, it also sets the construction schedule back. So if they thought they'd be in their new home by Thanksgiving, it would now be closer to Valentine's Day. After this hidden amount situation happened to me several times, I started telling my homeowners this true story:

When I first got out of college, I was ready to purchase my first vehicle. I went to the car lot and told the car salesman I wanted to spend no more than \$10,000 for a vehicle. He said, "Great. Come out to the lot and I'll show you what I have."

I followed him out, and when he showed me the first car he said, "Now here's one for \$11,500." I looked at him in complete disbelief. I thought, *did you not hear me? My budget is \$10,000.* I was thinking he'd start me somewhere in the \$8,000 or \$8,500 range, so that by the time I paid for tax, title, car handling fee, and other options, I'd end up at my budget of \$10,000.

Admittedly, I was young and naïve and didn't know about slick salesmen. I did end up buying a car from him because I didn't know any better, but it gave me a bad taste in my mouth. I told myself then that if I ever had the opportunity to sell someone a product or a service, I'd never sell that way.

I tell homeowners this story because I finally realized they may think I'm like a slick car salesman. So I tell them I treat their money like it's my own. I will honor and take seriously the budget they give me. That's why I need the budget to be accurate, with no mysterious "pot of gold" showing up later.

If you trust your builder, give him your real budget at the beginning of the process. If you don't trust your builder, then you shouldn't be working with him anyway.

### BOTTOM LINE

*Hire a respected builder; then trust him  
with your real budget.*

# Should I Use a Fixed-Price or Cost-Plus Contract?

## *Part 1—Fixed-Price*

A fixed-price contract is one in which the plans, specifications, and all of the materials and finishes are fully determined (fixed) before you start construction on your new home. A cost-plus contract takes all the costs of the home and adds either a percentage of costs or a flat fee for the builder's overhead and management fee.

Either a fixed-price or a cost-plus contract can be used successfully in building a custom home. It depends on what you're most comfortable with. The builder's costs are the same whether he uses a fixed-price or cost-plus contract. However, the price you'll pay will differ because of the risk associated with each type of contract.

Let's start by looking at a fixed-price contract.

The advantage of a fixed-price contract is that the price you pay for your home will be predetermined (fixed) whether or not the price of material and labor goes up or down. The builder assumes full responsibility for all risks associated with the cost of your new home. The downside is that you'll pay more for your builder taking on this risk.

On a fixed-price contract, the builder assumes responsibility for all risks associated with the fluctuation in costs. Of course, costs are always changing. From the time you sign your contract to the completion of the work, the actual costs will change. Sometimes up, sometimes down. If labor and material go down from the time you sign the contract until the job is complete, the builder benefits. If the cost of labor and material go up during the construction period, the builder absorbs the loss.

Another factor in pricing a home with a fixed-price contract involves the "fright factor." Will the homeowners change their demeanor once construction begins? No one has ever built a perfect home without some sort of scratch or blemish on it. Any builder can walk into any home in America and find something that's wrong. Anyone can take a magnifying glass and find scratches on any window on any newly built home in America.

Therefore, builders need to charge clients for “fright.” If the builder gets to the final walk-through with a homeowner who takes out a magnifying glass and searches every square inch of every window pane in the house, finds a scratch, and wants every scratched window replaced—at the builder’s expense—the builder had better have “fright” included in his initial calculations. With a fixed-price contract, the cost of repairing or replacing any and every item that has even a tiny imperfection is all the builder’s responsibility.

Generally, people with a fixed-price contract are more inclined to expect imperfect minor items to be replaced because it doesn’t cost them extra. To be clear, we’re not talking about shoddy workmanship. We’re talking about the gray areas of requests that are unreasonable, based on industry standards.

In general, people who do well with a fixed-price contract are people who are not willing to risk price fluctuations. They are more comfortable knowing their exact cost and are willing to pay a small premium for this comfort.

In the next chapter, we will cover the cost-plus contract.

### BOTTOM LINE

*Choose a fixed-price contract if you are willing to pay a small premium for locking in the total cost of your contract.*

# Should I Use a Fixed-Price or Cost-Plus Contract?

## *Part 2—Cost-Plus*

A cost-plus contract differs from a fixed-price contract in that it takes the actual cost of building the home and adds a fee for the builder's overhead and management. This fee can be either a lump sum (flat fee) or a percentage of total costs. Of course, neither you nor your builder will know the exact bottom line for the building costs until the final accounting is completed shortly after closing. A good builder will give you an accurate cost estimate, but it's exactly that—an estimate—until the final accounting. With a cost-plus contract, you'll pay the actual costs for all labor and material, plus the builder's fee.

A cost-plus contract can be advantageous when building larger, custom homes with finish levels and other things changing during the process. With the cost-plus basis, the homeowners know their actual costs on an ongoing basis. They can then determine where they will appropriate their funds early in the construction process and receive a full accounting disclosure of all costs. If they elect to pull out a magnifying glass to search for scratches in all the panes of glass, they can choose to have those panes of glass replaced at their cost.

Usually, doing business on a cost-plus basis keeps the magnifying glass in the drawer. It doesn't mean the builder builds with less care or quality; it just puts the homeowner and the builder on the same team. A cost-plus contract provides the synergy of identifying problems and determining win/win solutions that are in the best interests of the homeowner.

If you trust that your builder is competent and is working on your behalf, and if you are comfortable not knowing your exact total costs until the end of the project, then a cost-plus contract may be best for you. Your final cost will depend on the choices you make. Your builder will charge a smaller management fee on a cost-plus basis because he assumes less risk.

Both fixed-price and cost-plus contracts are successfully used in building new custom homes. You can decide which one works best for you.

### BOTTOM LINE

*Choose a cost-plus contract if you are comfortable knowing your end cost will be determined by the choices you make, and you know you have a trustworthy builder.*



## Should I Hire an Attorney?

Some people just feel better if their attorney reviews the construction contract, and that's okay. If you do this, be sure you hire someone who knows the real estate and construction business and will complement the process.

Monica loved to stop by and watch the construction going on just a few doors down from her home. She was very observant and noticed the quality of workmanship and materials. Monica not only knew the homeowner, she knew a number of my previous homeowners.

As Monica and I got to know each other, we began planning to build her a custom home. We spent many hours and numerous meetings designing the ideal plan for her lot. Finally, two-and-a-half years later, after three re-dos of her design, we were ready to build.

Three days before the closing date on her loan (signaling the beginning of construction), Monica called me to say her attorney had reviewed my contract and advised that it needed to be completely rewritten. I told Monica I'd been using this contract for many years and had never experienced a request like this. I suggested she ask her attorney for specific comments, and told her I was confident we could work through the issues. Monica agreed and said she would get back to me.

The day before the scheduled closing, I received an email from Monica stating that (based on her attorney's advice) she would not be building with me. Obviously, I was surprised.

A few days later, I met with Monica, and she affirmed that she would not be building with me. I told her I was disappointed because we'd been working well together for almost three years. I had counseled her through obstacles, given her professional advice, and taken her through three design changes—all successfully. It was very disconcerting now, after all that, to learn that her attorney was counseling her *not* to proceed without even a willingness to discuss specific points.

Unfortunately, Monica received some bad advice from her attorney. By insisting on an entire rewrite of the contract a few days before closing, he didn't serve his client well.

Monica eventually built her home with another builder. It was close to my neighborhood, so every few months I would drive past the project. A good builder can tell without ever speaking to anyone whether a project is going well or not. By seeing the progress over the months, I observed that the project took six or seven months longer than anticipated. It didn't seem to be a good experience for the builder or for Monica.

I'm not bashing attorneys here; some of my best friends are attorneys. In fact, I have a great attorney, but he provides essential advice that complements who I am and what I do. He helps me design win/win agreements, not win/lose, or lose/lose situations.

If you hire an attorney, be sure to hire someone with construction and real estate experience, not a general practice attorney who counsels on personal business, family trusts, estates, etc.

The contract we use in Texas is a custom builders contract approved by the Greater Houston Builders Association and the Texas Real Estate Commission. Most attorneys are familiar with these contracts and have reviewed them. If there is a problem with your attorney approving our contracts, we would recommend getting together with him to answer his questions in detail.

### BOTTOM LINE

*Hire an attorney to review your contract if it makes you feel better. Just be certain to hire one who helps you and not hinders you.*

## What Kind of Warranty Can I Expect?

An important question to ask your builder within the first few meetings is, “What kind of warranty can I expect?” You’ll want to know if he provides the minimum warranty allowed by law or if his reputation and written warranty exceed your expectations.

Most builders provide a one-year warranty on every home. But what’s most important is what previous homeowners say about the warranty. The warranty can be an extension of marketing. It’s a good idea to call the builder’s previous homeowners and ask how your builder did with the warranty and if there was anything he refused to do for them. Did he exceed expectations not only during the warranty period, but did he also show a willingness to correct things beyond the warranty period?

We can make choices to handle things that are not required, and for this reason we continue to get referrals over and over again.

When someone buys a Lexus and something goes wrong with the car one day after the warranty expires, there’s a good chance the dealership will do whatever is necessary to keep the customer happy. After all, people who buy a Lexus have different expectations than people who buy a Hyundai or a Chevy.

People spend their hard-earned money with us and we work hard to exceed their expectations. Are we perfect? No. But I believe the sign of a great company is how you handle problems. We work very hard to exceed people’s expectations.

### BOTTOM LINE

*Ask your builder what kind of warranty he provides  
and what his philosophy is behind his warranty.*

