

# Successful Home Contracting



How to save thousands of dollars and get a better quality home by acting as your own contractor.

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# *Lesson One*

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**Welcome to  
the Course!**

**How Much Home  
Can You Afford?**

**Developing  
Your Budget**

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**SUCCESSFUL HOME CONTRACTING**

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The interactive features are provided solely to enhance your learning experience. We have only added links where (in the opinion of the editors) additional information is useful. We did not want to add so much stuff that it becomes a distraction rather than a useful tool. Also, we did not want to break the rhythm of your learning experience with an over abundance of side tracks. So don't expect links on every page. We hope you will appreciate this approach. The "Links" page at [www.homebuildinganswers.com](http://www.homebuildinganswers.com) will also point you to a wealth of additional information.

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You can mail your videos to us at P.O. Box 471984, Aurora, CO 80047. Be sure to identify yourselves and tell us where you are building!

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## Overview

Lesson One explores some of the benefits you can expect to gain from this course. You will see where builders come from, what they do, and how much they earn.

Next we will take a look at an outline of the whole course. This will show you where you are heading.

Finally, we will find out how to determine how much new home you can afford. In this section, we will examine the qualifying formulas that lenders use and teach you how to find the answers you need.

## **WELCOME**

Welcome! We at the Institute of Residential Contracting are delighted that you have decided to build your own home. This course will provide much of the information you will need. There are many books that attempt to teach you how to physically build a home. That is, how to mix mortar, lay bricks, frame up walls, and build cabinets. This course will teach you how to be your own general contractor.



If you are reading this on line, please consider getting the Home Study Course. There are many advantages, which we will refer to throughout the course. If you are reading a Home Study version of this course, we invite you to visit us on line at [www.HomeBuildingAnswers.com](http://www.HomeBuildingAnswers.com) for additional information and opportunities.

## **ROLE OF THE BUILDER**

Today's modern, professional homebuilder is more like the conductor of a symphony or the producer of a motion picture than a carpenter. Most successful homebuilders, in fact, never drive a nail! There is certainly nothing wrong with the honest labor of a carpenter or a mason. It's just that in directing and coordinating the many events that must take place in building a home, most home builders do not have the time to physically do everything themselves.

## **WHAT THE HOME BUILDER ACTUALLY DOES**

The home builder is concerned with finding and purchasing or even developing lots, with the design of the homes he builds, with specifying all of the various materials and components, with the ordering and delivery of materials, with hiring and supervising the work of subcontractors, and with selling his product. In addition, he has to know how to deal with the city bureaucrats (permits and inspections), bankers (construction and permanent loans), and other professionals like attorneys and accountants.



## **WHERE BUILDERS COME FROM**

Builders come from all walks of life. Many builders started out as sub-contractors - perhaps a framing carpenter, or a drywall subcontractor (sub). Others come from professions further removed from the process - like banking or architecture. Still others may have simply had a home built and watched carefully. It looked easy, so they decided to build one for sale. That one led to another, and soon their “part-time hobby” was making more money than their full-time job!

A few colleges offer courses of study in building technology, but the point is, most builders started out with a limited understanding of the complete process of home building.

Generally speaking, how well a builder does, depends on how well he masters this process. Some builders catch on quickly. Others fall into poor habits or simply do not have the desire or persistence to sort it all out and make it work smoothly.

## **HOW YOU WILL PROFIT FROM THIS COURSE**

This course will help you master the process. It will give you all of the basics of home building. It will take you through the process step by step. You will not be dealing with abstract ideas. The course is designed to lead you sequentially through the process of getting your home designed and built. Everything in this course has one of two purposes: it either instructs you in how to get something specific done (like buy the lot, develop the plans, estimate the costs), or it gives you information that you will need in carrying out one of these tasks. When you are through, you will have a better foundation than many of the people who are currently building homes for a living.

## **SAVING MONEY BY BUILDING YOUR OWN HOME**

Most people will take this course in preparation for contracting their own home. Some “round numbers” will show you what the savings can be when you build your own home.

## **THE BUILDER'S PROFIT**

For having the knowledge to carry out his task, the homebuilder commands a healthy profit on each home he builds. This can be anywhere from 10% to 25% of the total sales price of the home, depending on many factors - the most important of which is the builder's knowledge and skill. This is the money you will save by building your own home.



Say, for example, you are going to duplicate a home that you have seen on the market at \$300,000. And that by using the knowledge gained from this course, you are able to act as the general contractor and you build your home for a cost of \$250,000. You will have earned (or saved!) the builder's (very achievable) profit of 16.7% or \$50,000!

So instead of paying \$300,000 for a \$300,000 home you are paying \$250,000 for a \$300,000 home. Remember, the home is still worth \$300,000. Assuming you make the same down payment as the family who buys the contractor built home, you will have a much lower monthly payment! For example, let's say you both put \$50,000 into a home worth \$300,000. The other family will have a \$250,000 mortgage (\$300,000-\$50,000). You, on the other hand, will have a \$200,000 mortgage (\$250,000-\$50,000). As we will show you in the lesson on Construction Funding, it is quite possible to build your home with 100% financing.

Also, in addition to your down payment (if any), you will have an instant equity in the home of \$100,000. What this simply means is that the home has a market value of \$100,000 more than you owe on it. You could sell the home for \$300,000, pay the bank the \$200,000 you owe, and end up with \$100,000 cash. That's what "equity" means. Banks will loan you money using your equity as collateral. Typically you can borrow 75-80% of the equity in your home. That means you can now lay your hands on \$75,000 to \$80,000. Of course, you will have to repay this loan as you would any other. That \$100,000 you have in equity in your new home is added to your net worth on your financial statement!

Imagine if you did this three or four times a year! Do you begin to see why the home building business is so attractive? There is a lot of money to be made in this business!

### **OTHER WAYS TO SAVE MONEY**

Saving the builder's profit isn't the only way to save big when you are the contractor. Here are some others.

#### **RESEARCH ALTERNATE PRODUCTS**

In the design phase, you may be able to find alternate materials, products, and/or building techniques that will enhance your final product and perhaps even save you money.

#### **SMART SHOPPING**

If you are willing to spend the time and energy, you will certainly find better deals on flooring, lighting, wallpaper, appliances and the like. These efforts can add up to really significant savings.

#### **TIGHT SCHEDULING**

Unless you plan to build "out of pocket," you will be dealing with a construction loan. As with any loan, time is money. The tighter your construction schedule, the more you will save on construction loan interest, especially towards the end of the project, when you have borrowed the most.

#### **CONTROL WASTE AND THEFT**

Many dollars can be lost on a project by the wasteful use of materials and by materials lost due to theft. This course will give you specific, detailed techniques for dealing effectively with both.

#### **DOING SOME OF THE WORK YOURSELF**

Most of our students indicate that they intend to do at least some of the work themselves. You know what your own skills are and how much you plan to tackle on your own. Some permitting authorities require a licensed professional's involvement even if you do the actual work. This is common for electrical and plumbing work. The extent of their required involvement however may be limited to pulling the permit.

If you are interested in doing this kind of work, be sure and talk to your permitting authority to see what is required (and allowed) before you proceed. Most people limit their actual physical involvement in the construction to painting, wallpaper, landscaping, and the like. But you can save big dollars by doing some of the work yourself. A word of caution

- make sure you can accomplish what you plan to do on your own in a reasonable amount of time, so that you are not holding up the project. Remember that construction loan interest!

**GETTING MORE BY BUILDING YOUR OWN HOME**

Another possibility you may consider is building a larger home than you would otherwise be able to afford. For example, say you have determined that you can afford a \$300,000 home. If you build your own home, you could add the builder's profit into the cost and build a much larger home. Using the 16.7% builder's profit we used in previous example, you can afford to have a \$350,000 home.

How much larger home you will be able to afford will depend on how much "profit" or savings you are able to squeeze out of the project. Remember, your savings are the difference in the fair market value of the home and the price you are able to build it for by assuming the role of contractor.



## **CONTROLLING THE QUALITY OF YOUR NEW HOME**

Many of our students have owned several homes and many have had one or two custom built by a contractor. Many have told us that they felt they could get better quality if they were in charge of the process. Whether this is possible is contingent on many factors including (among others) knowledge of the process, skill in dealing with subcontractors, and the commitment of time necessary to oversee the construction. There is little doubt, however, that if you commit to acting as the general contractor on your new home, you will have a more intimate knowledge of how it went together, and may indeed be able to achieve a higher quality than if you had not.

## **SATISFACTION**

We always ask our seminar students their motivation for acting as their own general contractor. Saving money is always one of the top answers. And when we talk to those who have finished their project, we usually ask what the greatest reward has been. It's strange, but few ever talk about the money they saved. Invariably, they positively glow about the sense of pride and accomplishment they feel for having built their own home! There is indeed a great feeling of satisfaction that follows the realization of this, one of the basic needs of life - shelter, especially when it comes through your own intimate involvement.

## **HAVING A HOME BUILT**

There are others who would rather hire someone else to build their home, but feel uncomfortable about the possibility of not being treated fairly. Many people who have little knowledge of the building process, and who have read "horror stories" about shoddy construction or unscrupulous contractors, are very nervous about getting involved with a builder. If you are one of these people, this course will give you the knowledge you need to be in control of the situation. The time and effort you invest in educating yourself before construction begins will pay for itself many times over in the savings you will achieve in time, money, and hassle.

## **CERTIFICATE OF SUCCESSFUL COMPLETION**

If you wish, you can complete and return a short, 50-question, open book "[Final Exam](#)." The questions are all taken directly from the Question and Answers sections that appear at the end of each lesson. With a passing grade, you will be sent a beautiful, suitable-for-framing Certificate of Successful Completion. It states that you have successfully completed the course and have mastered the basics (as well as some of the more advanced) principles of home contracting.

As you will learn in the lesson on construction funding, one of the things a bank wants to know before it gets involved with owner contractors is that they know what they are doing. We will suggest a number of things to submit with your loan application to show that you are serious and have the capability of succeeding. The Certificate of Successful Completion goes a long way in demonstrating to the lender that you have spent the time and effort to educate yourself for the project at hand.

## **YOU CAN DO IT!**

If it all starts to sound a bit overwhelming, don't despair. It is a big project, but you can do it! Thousands have. The principal key to your success is knowledge. Knowledge is power. This course will give you a terrific foundation for that success. We have put a great deal of effort in presenting what you need to know in a clear, concise, nontechnical way that will have you building confidence with each page you turn.

Here is good news: common sense is the key! Home building is complicated only in that it involves many steps. But each step can be mastered easily. All you need is a few basic facts and some common sense. Remember that most builders have never been exposed to this kind of an organized approach to building.

## **WHAT YOU WILL NEED**

Here are the basic things you will need to successfully contract your own home.

### **KNOWLEDGE**

As stated above, the foundation of your success is your willingness to acquire the knowledge you need. That's the reason you are taking this course. Read on!

### **COMMITMENT**

Simple knowledge is not enough. You must also have the burning desire to see this project through to completion. We would not be truthful if we neglected to say that there will be times when you will wonder why you ever thought you could do this. It's not an easy task and things will not always go well. Be sure that you have the COMMITMENT to see the job through. The rewards are well worth it!

### **FINANCIAL RESOURCES**

You will, of course, need to have the financial resources to build your home. Your lender can help you determine your needs. Later in this lesson

we will guide you through the budgeting process that will help you avoid unpleasant surprises. This process includes instructions for determining how much home you want (are able?) to build.

### **TIME**

Contracting a home requires a substantial time commitment. If you plan to superintend the work yourself, there will be many times that you will need to be on the phone early in the morning talking to subs or ordering additional materials. And you will often need to be at the job site at different times during the day to receive or secure materials, answer questions, and inspect the quality of the work. Below you will discover some of your options. In other words, it's not all or nothing. You can choose the level of your involvement.



### **YOUR OPTIONS**

You will have several options as to the extent of your involvement in the contracting process. We have structured them from most control/commitment to least.

#### **YOU DO IT ALL**

In this option you elect to do everything a general contractor would do. The only greater commitment you could make is if you also decide to do some of the actual work (that would normally be done by a subcontractor).

tor) yourself. This level obviously requires the greatest amount of time on your part.

### **GET SOME HELP**

Most of our students work with a spouse or other family member to lighten the load. Family members are the most reliable source of this kind of support, since they have the greatest stake in the project.

### **HIRE A SUPERINTENDANT**

Finding someone to act as your agent at the job site can significantly lighten your load. This could be a family member, friend, or just someone you know or have found that has the EXPERIENCE and TIME to carry out this important task. A retired builder or job superintendent is often a good choice. You may be able to find such a person through a building supplies dealer or a local labor union. Of course, choosing this option will automatically reduce some of the hands-on control you will have over the project. If you go this route, find someone you communicate well with, and have a clear understanding as to the duties and compensation involved.

### **USE A BUILDER AS A CONSULTANT**

You can often find a small custom homebuilder who will offer you a menu of services they will perform for a fee. These include anything from plan review, cost estimating, and subcontractor recommendations to cost accounting, bill payment, and superintending. For many people paying a professional to “hold their hand” is a comfort worth paying for, and could even be required by a nervous lender.

### **HIRE A BUILDER**

As noted above, in the section on what you will get from this course, some people take the course so that they will be dealing from a position of strength when they hire a general contractor to build their home. This is your final option and the one that offers the least control. It can still be a tremendously rewarding experience, if you have prepared yourself with the knowledge you need to be an equal in the relationship with your builder.

## **STRUCTURE OF THE COURSE**

A word here about the philosophy behind the structure and content of the course. Many courses make a lot of assumptions about the background and knowledge of their students. This course will assume that the reader knows very little about the subject. We have attempted to

define terms and concepts as they are introduced, so that you will not be slowed down by having to look them up.

The course is divided into lessons of varying length. Each lesson has an Overview of the material to be presented. At the end of each lesson there is a Summary to help you review what you have learned. At the end of each lesson is a link to a Questions and Answers section to help you test your own understanding of the material that has been covered.

During the course, we will go through the entire home, item by item (from footings to clean up) several times. Each time, we do it in pretty much the order it will happen when you build. This repetition will help you grasp the sequence of the construction process . . . how things fit together.

We strongly suggest that you treat this material as a “working course.” Read the whole course through quickly to get an overview. Then go back and study each lesson more thoroughly. The printed version of the course is an excellent investment, as it offers you the opportunity to highlight passages you want to refer to often. It is also an invaluable guide to have with you in the field during construction. The books are designed to lie flat and remain opened to the section you are dealing with. Don’t hesitate to underline and make notes in the margins.

Most lessons have a link to a printable Checklist that you can use when you put what you have learned into action. The Checklist will consolidate all the actions into one place. This will save you from having to put together a “To Do” list from the text.

### Lesson Three Check List

- Find lots you are interested in
- Use the criteria listed to determine lot desirability
- Compare lots (using the statistical method if you like).
- Analyze the lot seller.
  - The Professional
  - The Reluctant Recruit
  - The Happy Recruit
  - The Casual Seller
  - The Motivated Seller
- Contact the lot owner and make an offer.
  - Terms
    - Price
    - Down Payment
    - Method of paying balance
    - Closing Date
  - Conditions
    - Ability to obtain permit

## **COURSE OUTLINE**

A look at the outline below reveals that all of the information in the course breaks down into three broad topics having to do with the Lot on which the home will be built, the Planning that will be necessary before construction begins, and the actual Construction process. Each of these topics has a Physical and a Financial component.

<b><u>Lot</u></b>	Physical -	Selecting the Lot
	Financial -	Purchasing the Lot
<b><u>Planning</u></b>	Physical -	Plans and Specifications Project Scheduling
	Financial-	Budgeting Cost Estimate
<b><u>Construction</u></b>	Physical -	Permits Purchasing Scheduling Quality Control
	Financial -	Funding Disbursements Cost Accounting Cost Control

At the beginning of many lessons we will include the general outline presented above and indicate where the current subject matter fits in. This should help you to keep the material organized in your head, and help mark your progress.

## **A NOTE ON LICENSING**

Many people ask, “Don’t I have to have a contractor’s license to build my own home?” The answer is NO! Just as you don’t have to be a licensed real estate broker to sell your own land, you don’t have to be licensed to build your own home. In the last lesson in the course we talk about what licenses you may have to have if you decide to become a profes-

sional homebuilder and build for other people. But for now, relax! You don't need a license.

## **STEP ONE: DEVELOPING YOUR BUDGET**

The very first step in planning the construction of a new home is the preliminary budget. Developing a preliminary budget spells out the allocation of funds for your project in broad terms. Knowing your spending limits and developing a preliminary budget will go a long way towards keeping you out of financial trouble on your project, especially during the preparation of your plans and specifications. Your final "working" budget will be developed when you complete the cost estimating process.

### ***Here's an all-too-typical scenario.***

A family decides to build a new home. They spend months (or years) collecting photos and magazine clippings of features and products they want to include. Armed with these and sketches of ideas they have about room layout, front elevations, and so forth, they hire an architect to design their dream home. The plans are finished and they take them to a builder or supplier to get a cost estimate, and guess what? The home costs out at three times what they can afford. So now they must go through the gut-wrenching process of cutting room sizes and other features to get the costs down. Before they really start, they are already dealing with a watered-down version of what they thought they wanted.

### ***Here's a better way.***

1. Determine how much you can (want to?) spend.
2. Establish square foot costs in your area.
3. Complete a preliminary ***Budget Sheet*** (we have provided one).
4. Adjust square footage, extras, and upgrades to meet your spending limit.

## **1. DETERMINE YOUR COST LIMIT**

How expensive a home do you wish to build? A better question for most of us is [how expensive a home can you afford to build?](#) If you are like most people, you want the most home you can afford. On the other hand, you may be able to afford much more home than you really want or need. Everyone's situation, of course, is unique. Most people already have some

suspicion about how much they want or can afford to spend. If you want as much as you can afford, but don't know what that figure is, start from the end and work backwards. In other words, determine what cash you can or are willing to put into your home and how much you can afford in monthly payments to cover whatever money you need to borrow.



*This one goes for about \$750,000!*

### **QUALIFYING FORMULAS**

Figuring out how much home you can afford isn't all that difficult. Lenders and real estate agents do it every day. A "lender" may be a bank, a savings and loan, an insurance company, a credit union, a relative, or some other source.

Lenders use qualifying formulas to determine how much you can afford to pay each month. The formulas will vary from bank to bank but generally they compare your income to your debt payments. If you take your monthly payments (house payment, car loan, charge cards, etc. - not utilities, food, entertainment) and divide it by the sum of all your monthly income, the number you come up with should not exceed .33 to .36, depending on the percentage of the cost of the home you are planning to borrow (80%, 90%, 95%?). Another typical guideline is that the total monthly house payment should not exceed 25% of your stable monthly income.

**PITI**

The monthly house payment used in these qualifying formulas consists of four items: principal, interest, taxes and insurance (PITI). A portion of the monthly house payment will go towards reducing the principal (the amount of money originally borrowed). A portion will also pay the previous month's interest on what you still owe. Below is a brief discussion of the other two items.

**TAXES**

In addition to principal and interest, you will also have to pay property taxes. These are levied by the city, the county, and in some cases the local school board. The tax bill is due each year. It can amount to a hefty sum, depending on where you live. If you do not pay your property taxes, the government can seize and sell your land to get its money. The people who loaned you the money to buy the home are also looking to the home itself as the ultimate security to guarantee repayment.

If you didn't pay your taxes, and the government foreclosed (seize and sell), how could the bank get their money back? To protect their interests, most lenders will estimate the annual tax bill and make you pay 1/12 of that amount each month along with your principal and interest. They accumulate this money in a special account called an "escrow" account. At the end of the year, the lender pays the property tax due on your home out of the funds that are in this escrow account. This assures the lender that the taxes are paid.

**INSURANCE**

Lending institutions also worry about the possibility of anything happening to the home that would damage or destroy its value and thereby jeopardize the collateral securing their investment. Such things may include a fire, a falling tree, or a tornado. Most lenders will require you to carry a home insurance policy to guarantee that funds will be available to repair accidental damage to the home. Many lenders will also require payment of the premium for this insurance to be made in a fashion similar to the tax escrow described in the previous paragraph.

These four items - principal, interest, taxes, and insurance, are the items considered in most formulas that are used to determine how much house you can afford. In addition to PITI, some formulas also use maintenance of the home - repair of worn or broken items, repainting, etc., and income taxes.

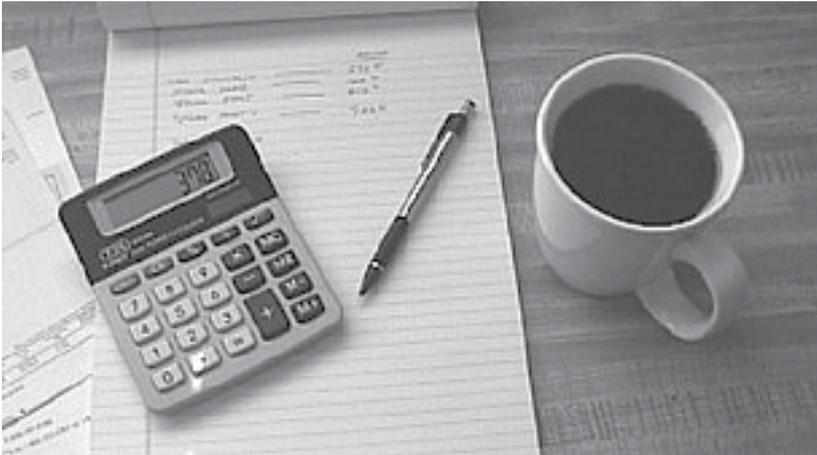
### **WORKING BACKWARDS**

By knowing your income, your monthly debt obligations, and how much cash you are going to put up, a lender or real estate agent can use their knowledge of current insurance rates, property, taxes, and standard amortization (payment) tables to help you work backwards to find out how much home you can afford (total price). And they can usually do it in a matter of minutes. A good on line resource for determining how much you can afford is [www.nolo.com](http://www.nolo.com). In their search feature, type, “qualifying for a home loan.”

Click [here](#) for an on line mortgage loan calculator.

### **BALL PARK FIGURES**

The following table may give you some “ball park” feel about the relationship between interest rates, mortgage amounts, monthly payments, and annual income needed. A 30-year loan is assumed in each case. The monthly taxes and insurance are estimated at 12% of the monthly principal and interest payment.



RATE	AMOUNT	P&I	T&I (@12%)	PYMT	INCOME
8.50%	150,000	1,153	138	1,291	62,000
8.00%	150,000	1,101	132	1,233	59,000
7.50%	150,000	1,049	126	1,175	56,500
7.00%	150,000	998	120	1,118	53,664
8.50%	200,000	1,538	185	1,723	82,500
8.00%	200,000	1,468	176	1,644	79,000
7.50%	200,000	1,398	168	1,566	75,000
7.00%	200,000	1,331	160	1,491	71,500
8.50%	250,000	1,922	231	2,153	103,500
8.00%	250,000	1,834	220	2,054	99,000
7.50%	250,000	1,748	210	1,958	94,000
7.00%	250,000	1,663	200	1,863	89,500
8.50%	300,000	2,307	277	2,584	124,000
8.00%	300,000	2,201	264	2,465	118,500
7.50%	300,000	2,098	252	2,350	113,000
7.00%	300,000	1,996	240	2,236	107,500
8.50%	350,000	2,691	323	3,014	144,500
8.00%	350,000	2,568	308	2,876	138,000
7.50%	350,000	2,447	294	2,741	131,500
7.00%	350,000	2,329	279	2,608	125,000

Click [here](#) for an on line amotization table.

### **LET THE PROFESSIONALS DO THE WORK**

If all this sounds complicated, it isn't. Let's put it in perspective. It can all be done in an afternoon on the phone or in a few minutes on line. You know what your income is. Sit down and add up your monthly payments for long-term obligations and decide how much cash you may be willing to put into your new home. Then pick up the phone and call a mortgage banker, savings and loan, or Realtor. Tell them: I've got \$\_\_\_\_\_ in cash. My monthly gross income is \$\_\_\_\_\_. My monthly payments for long-term obligations are \$\_\_\_\_\_. How much house can I afford? It's that simple.

## **INCLUDING THE BUILDER'S PROFIT**

Remember that as the contractor, you will also have the builder's profit to work with. So you can have that much more home. Let's say you've been told you can afford a \$300,000 home. Assuming a 15% to 20% builder's profit, that would put you in the \$345,000 to \$360,000 price range.

## **2. SQUARE FOOT COSTS**

The next step, after determining how much home you can afford, is estimating the square foot costs of tract homes in your area. This may seem like a mystery. Why in the world do we want square foot costs for tract homes? The reason will become clear very shortly. So how do I get these square foot costs? Well, some detective work and some "guesstimating" are required. Here's how to start.

First visit some under-construction subdivisions in the area where you intend to build and find a home that is similar in size and quality to the one you will build. We'll call this our "comparison home." Get the size of the home (in square feet) and the sales price. Both of these will be available from a sales agent. Note: square footages generally refer to HEATED areas (unheated garages and basements will not be included) and will be measured from outside wall to outside wall.

Next you want to subtract the cost of the lot and the builder's overhead and profit to get at the actual cost of construction. Here is where the guesstimating comes in. In a typical subdivision, national statistics indicate a lot value of about 25% of the value of the home. We like to be conservative and use a 20% figure. Note that we said a TYPICAL subdivision. Obviously if you're dealing with oceanfront property, the lot costs would be much higher. You'll just have to use your best judgment here. You can also look around and see what other similar lots are selling for. Keep in mind that the builder of the subdivision probably paid less since he bought several lots, or even raw land. So you may want to lower the lot costs you find a little to more reasonably reflect what the builder actually has in the home you are using for comparison.

For the builder's overhead and profit we like to use a conservative 15% figure. It could be much higher, but being conservative here will help you stay in budget later.

So what do we have? The price of the "comparison home" less 20% lot cost, less 15% overhead and profit. Which is the same as price less 35%. Which is the same mathematically as price times .65! Divide that figure

by the total heated square footage and you get a pretty good approximation of the COST PER SQUARE FOOT of a home similar to the one you want to build. The formula is

$(\text{Price} \times .65) \div \text{total heated sq ft} = \text{cost per square foot}$

Is this totally accurate? No! Is it better than a total guess? Yes! Square foot costs are usually used only for comparison of housing costs between different areas of the country or for getting a feel about the quality of features and finishes in a home, i.e. a home that costs over \$200 a square foot is obviously much nicer than a similar sized home that costs \$100 per square foot.

Also, consider this. A hypothetical home with outside dimensions of 40' x 50' has an area of 2,000 Sq.Ft. (square feet). The total length of its exterior walls is 180 LF (linear feet) - 40+40+50+50. Another home has outside dimensions of 25' x 80". Its area is also 2,000 Sq.Ft. But the total of its outside walls is 210 LF! If you assume (rightly) that building outside walls has an associated cost, then the second home has a more expensive outside wall, all else being equal.

The point is that using square foot costs is only a rough approximation. But starting with a "comparison home" that is similar in size and finish to the one you plan to build will provide an adequate basis for your budgeting. Remember, budgeting is a planning guide. Hard figures will come when the design is finished and a cost estimate is done from the actual labor and materials "takeoff."

### **3. FILLING OUT THE BUDGET SHEET**

The next step in developing your preliminary budget is deciding how your new home will differ from the "comparison home" and what impact your changes will have on the costs. That's where the Budget Sheet ([click here](#)) comes in. Here's how to fill it in.

Most of you already own a lot. If so, fill in what you paid for it. If not, put down what you think you will pay for the lot you want.

Next fill in the approximate size in square feet you anticipate building and the cost per square foot of the "comparison home" you calculated above. Multiplying these together gives you a "base cost" (before changes) for your new home.

Finally you need to make decisions as to how your home will be different from the "comparison home." Will you use a better window? Nicer

cabinets? Will you upgrade the appliances? Have fancier light fixtures? If so, get suppliers to help you arrive at generous estimates as to how much such upgrades (or downgrades) will cost. Plug in all these figures and total it all up. Is it more than you had intended (or can afford) to spend? If so, where can you cut?

#### **4. ADJUSTMENTS**

Adjust square footage, extras, and upgrades to meet your spending limit. By repeatedly going through this process, you will arrive at a budget that works for you. Then when you get your plans back from the architect, they will cost out at a figure that is within your BUDGET!

### **BEING REALISTIC**

If this is your first home, a word of caution. Be realistic. Don't fall into the trap of having "champagne tastes on a beer budget." On the other hand, you may find that you can afford more than you really want or need. That's a nice position to be in. If that's the case, build just what you want, and put your builder's profit to work for you in other ways!

## **Summary**

We have discovered that most professional homebuilders come from backgrounds not too dissimilar from our own. We have looked at what the builder does and how much he earns. We have found that the task ahead of us involves knowledge and organization rather than skill with tools.

We have seen that your reward for using the material in this course can include saving money on your new home or getting a larger home than you would otherwise be able to afford. A Certificate of Successful Completion is available if you complete and return the Final Exam. You learned what will be required of you and looked at some options. Even if you hire someone else to build your new home, you will still profit because of a much higher comfort level with what is going on. You will be able to deal with your builder with more assurance and less anxiety. You can even use this course in preparation for becoming a professional homebuilder.

We looked at the outline for the course and found that the material breaks down into three areas: the Lot, the Planning, and the Construction. We saw that each of these areas had a physical and a financial component.

Finally, you learned how to develop a BUDGET that will allow you to design a home you can afford to build and to exercise financial control throughout your project.

In a capsule, building involves getting a lot and some plans, getting a loan, hiring some subcontractors, and getting them on the job site at the same time as the materials they need. Again, the key words are common sense.

Building a home is not a fill-in-the-blank type of activity. Although we've tried, we haven't covered all of the bases. In home building, the old saying is especially true - you'll learn something new every day! You'll have to use a lot of common sense. You'll have to think. You'll have to ask a lot of questions. But you'll have a lot of fun and save a lot of money!

## Looking Forward

In Lesson Two we will take a look at the *Construction Process*, so that you will have a good understanding about the overall process of building your home - how it gets done!

CHECK LISTS

Q&A's



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