

You Can Still Afford a New Home, Build it Yourself!

"Owner Builder's Manual" How to save 40 to 60% of the cost of a new home.

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The Owner Builder's Manual

How to be Your Own Builder
and Save 40 to 65% of the
Cost of your New Home.

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Master Builder

First Edition

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Can you afford to be an Owner Builder?

On the other hand, maybe I should ask, can you afford not to be an Owner Builder?

Maybe you have worked hard and have already saved enough to buy a little house, but your family is growing and you find that you need a little bigger house. And, like so many other's you have probably been spending every weekend driving around looking at every tract house within miles. Trying to find a house you like and most important, a house you can afford.

Maybe you have found houses you felt you could afford. But you haven't found anything that really appealed to you. Maybe the number of bedrooms and size of the houses you have been looking at would fit your family's needs. Still it is just not right, you're just not quite satisfied with anything you've seen.

You want a new home, but you also want something a little special, not something that looks just like every other house on the block. Maybe you have even been thinking about building your own home. However, you have heard all of the horror stories about contractors and sadly, many of these stories are true. But I could also tell you a few stories about some "Customers from Hell". I know you have heard that contractors are expensive, which is also true. But remember, what you're paying for when you hire a contractor is knowledge and experience and of course, knowledge and experience is expensive.

Decision # 1, can you afford to build your own home?

You're not really sure you could afford the cost of hiring a contractor to build a house for you or even afford to build your own home as an owner builder. You're not alone and unless you're either very wealthy (or very foolish), this could very well be the most important decision you and your spouse are ever going to make. But in all fairness, let's make this decision, a knowledgeable decision.

Either buying or building any home could very well be the most important financial decision you and your spouse will ever make. So naturally, you are going to hesitate, but I'm sure you would have hesitated and thought about it even if you had decided to buy the tract house you thought you could afford. This is natural, it's what they call, using common sense. My advice would be, not to make any decision until you are able to make a knowledgeable decision by this I mean look at the facts, and figures before you make your decision.

You want a new home, but you know that either buying or building a new home represents a tremendous financial investment. Underline the word investment in your mind because that's what it is, an investment and as you know, real estate is probably the safest investment anyone could have made over the past fifty or sixty years and that's a pretty good tract record.

Now, let us stop for a few minutes and think about those tract houses you have been looking at. While you may have felt they were in your price range, they just were not what you were looking for.

Maybe the kitchen was not just right, maybe the floor plan was not just right or the curb appeal was not what you really had in mind. Whatever the reason, you decided they just were not what you were looking for.

However let's take it one-step at a time, and forget about floor plans and curb appeal and just think about price Now

let us go back and look at those tract houses again. Only this time lets remember that, that is exactly what they are, "tract houses". And ask yourself, why the builder would go to all the trouble to build so many of these big beautiful tract houses.

The answer of course is obvious, to make a profit and like any good businessperson, he wants to make the maximum profit possible on his investment. Of course, the house he builds has to meet or even slightly exceed all of the local building codes. Still controlling construction costs was by far, the number one priority in his profit plan. And while all tract houses have to have a few distinctive features to appeal to the buying public. Controlling construction costs would surely have been much more important to the Developer's profit plan than distinctive features. After all, his only reason for building those houses was so he could sell them at maximum market value and make as much profit as he/she possible can, so why would he spend any more than he absolutely had too. Common sense tells you, he wouldn't.

Moreover, his cost of construction could vary immensely, depending on both his overhead and the particular market the Developer was targeting. And there are basically four classes of development a developer may target. Economy, Average, Custom and Luxury.

In explanation, Economy is of course exactly what it says,

Economy:

Economy or what is known in the trade, as affordable housing is usually built on inexpensive property, meeting minimum building code, without frills and is usually built as affordable housing. It is a good housing market and as we all know, it is very much in demand and even though some local municipalities subsidize affordable housing, and while we know not enough affordable houses are being built, this may not be the type of home you want to build for your family.

Average:

Is generally what you find in the tract homes of today. Usually consisting of two or three simple floor plans, with several different exterior elevations, repeated through-out the tract giving the false appearance of being different houses.

Usually average workmanship, barely meeting or slightly exceeding minimum building codes. With maybe a few special features thrown in, which the general buying public usually feel give the residence a subtle appeal

Custom:

Usually built from plans and specifications exceeding local building codes. With above average material and workmanship, with attention given to construction detail. Usually, but not always built on speculation. Known in the trade as a Spec House.

Enough special features have been incorporated into its construction to give it a very distinctive appearance. I have built a few small Custom tracts, usually six to fourteen houses to a tract. However, a tract of custom houses is definitely not the norm

Luxury:

The fourth class of home is your Luxury Home which is usually built for a specific client. Built with a unique design, with particular attention, given to fine workman-ship, and custom features.

While this class of home would definitely not be classified as a tract house, I have never the less seen this type of home with a starting price of several million dollars , built not as a tract house, but lets say built in quantity, surrounding a privately owned lake in Southern California. Needles to say, I didn't purchase a home from this developer; however I did purchase two of his beautiful Arabian horses.

But this book isn't about the type of home this developer

Builds, it is about the type of home you or I would like to build for our family. So let us get back to the average tract house, the one your average developer builds. "The average tract house".

Because developers have to make a profit to stay in business, they build their average tract houses to what we call "Construction Standards". This means they built these houses to the lowest possible standards acceptable by the general buying public meaning everything they used to build these houses, with maybe a very few exceptions were used with one major thought in mind, that being "builders profit". Now please don't misunderstand me.

I'm not condemning any developer for making a profit. After all, that is what he is in business for, to make a profit and there are many, other developers out there he has to compete with, so in order to stay in business, he has to build acceptable houses as inexpensively as possible. I myself have built hundreds of tract houses with the same thought in mind. That is how we all stay in business.

And here's how they do it.

The sales price of a tract house is based on the actual cost of constructing it and the sales price of the house is usually not decided on until all the figures are in. That is, the actual cost of constructing it is known. The term, "Cost of Construction" doesn't mean just what you can see when your walking through one of the model homes. It also includes developers overhead, which in turn, include corporate offices, secretaries, receptionist, insurance and cost of property. The cost of accountants, and probably even a vice-president or two. It includes property taxes, architectural plans, structural engineering, surveying, civil engineering, excavation, grading, streets and grading lots. It includes the cost of hiring a project manager and hiring superintendents and laborers. The cost of legal fees, street paving, cost of installing curbs and gutters, sidewalks, installing main sewer

lines, main water lines, gas lines, telephone, cable and electric lines, a construction trailer and field office. It includes the cost of temporary water and temporary electricity. It includes the cost of model home furnishings, advertising, dumpsters, Andy gumps, security fences, night watchmen, insurance, the cost of building permits, cost of time spent securing building permits, landscaping, and commissions of realtors to sell the houses and maybe we should even throw in a few luxury cars for the corporate office along with lots of power lunches.

Wow, that's quite a list. But wait, we're not through yet. Remember, no developer is going to build any houses without making a profit. So lets add Developers profit to our list.

Now it is true that the cost, of all these items are spread out over forty to fifty or more houses. Still, that is some list and if you look at your average tract house, again you should be able to understand why the actual cost of building that house is only a fraction of its selling price. Actually, it is about forty-five to sixty percent less than the selling price of your average tract house. Therefore, it makes sense, that unless your overhead is greater than the developer's overhead is, you should be able to build that same house while saving tens and tens of thousands of dollars in the process.

But, more about this a little later. There's still more to think about and a little more knowledge to gain before we're ready to make any decisions. So please don't stop reading.

Decision # 2, where to build:

Now you are going to need a piece of property to build your house on and this could be anything from a city-sized lot to several acres in the country. Which is another very important decision your going to have to make and as the cost of property can and does vary greatly from community to community this could very well be the deciding factor in

your decision to the very important question, can you actually afford to build your own home.

First, you must decide where you want build, where you want to live, where you want to raise your family. So think about it and talk it over with your spouse. If you know of an area where you think you would like to live, that is probably a good place to start (But always have a plan B in reserve). Ask one of your local realtors for a list of vacant lots in your area of interest. I have always been happy dealing with nation wide companies like Realty Executives or Century 21, but talk to several realtors, find one you feel comfortable working with.

When you have your list of properties from your Realtor drive around the area and look at the properties on your list. If you happen to see a vacant piece of property you like and it is not on your list and does not have a for sale sign. Write down the address and your realtor will be able to find out who owns it and if they want to sell it. You could very well find an extremely reasonably priced piece of property from someone who has almost forgotten they even owned it.

Take a camera along to take pictures of any properties that interest you and make notes. Talk to some of your future neighbors. Ask them what they think of the area. Do they like living in the area. Do they know of any drainage problems either on or near the property? Is this property in or near an airline flight path? Look in the street for manhole covers, any indication that utilities are in the street. Notice if the curbs, gutters and sidewalks are in. If the curbs are in, look for marks on top of the curb. A cross would indicate a property line, an S would indicate a sewer lateral. Check the surrounding area for shopping centers, schools and parks.

Will any of the existing houses in the immediate area detract from the house you intend to build? You do not want to build a home that could be worth three or four hundred thousand dollars or more next to a house that is only worth a hundred thousand or less.

How far are you going to have to commute to work. Ask yourself if this is the type of residential area, where you would want your family to live. This is a very important decision, think about it and talk it over with your family. If your answer to those questions were yes, your next step would be to contact your realtor. Tell her/him you are interested in purchasing that particular piece of property and you would like to make an offer. First, tell your realtor that you would like to see some comps on both comparable vacant properties and on houses similar to what you are going to build. Houses, that have been sold in the immediate area in the past year.

Describe the house you are planning to build. Two thousand square foot, three bedrooms, two baths, one fireplace, two car attached garage. This will give your realtor something to base her comps on.. She should be able to run the comps for you in a matter of minutes, at no charge. But, you're still not quite ready to make your offer. Because, you never want to make a decision, you do not have to make immediately, under pressure. Take your comps home with you, where you can sit down, analyze them and discuss it with your spouse. You already know what the seller's asking price is. It's on the list of properties your realtor gave you.

So now you have to decide how much you should offer and one of my responsibilities in writing this book is to explain how you can build your home as an Owner Builder as inexpensively as possible. And your responsibility as an Owner Builder is to help me do it. So back to the question of how much to offer. Your comps will help you make your decision.

However from experience, I would usually offer from 10 to 15% less than their asking price. And I would lean toward the latter. Because if I offered 10% less and my offer was readily accepted, I would know immediately, I had just left some money on the table. On the other hand if I had offered

15% less and they didn't accept it. They could either counter offer or I could raise my offer. In any case if you can't come to an equitable agreement on this piece of property, move on to the next one.

Never fall in love with a piece of property as buying property that way, can get expensive.

When your offer is accepted, you should stipulate that your offer is to hinge on a thirty-day period for you to do your due diligence.

The Building Department:

It is time for you to visit all of the City and or County agencies to investigate the property, to find out if there is any reason you would not be allowed, to build on your property. Find out if there are there any City and or County fees or assessments owing on the property.

Is there a Home Owners Association? If so, are they going to be involved with the design of your home? And if so, to what extent? Are there Home Owners Association dues, if so, how much are the dues?

Are there any City or County building moratoriums? Are sewer and utilities available? What will the city charge for your connecting to the existing sewer system? Where is the existing sewer lateral, in relationship to your property and how deep is it?

What does the city charge for setting a water meter? How much does a 1/2" meter cost and how much is a 3/4" meter?

How much will it cost you for a temporary power permit for construction purposes? Can you park a trailer on your property to stay in while you're building your new home?

Ask the Building Department to estimate how much a building permit will be for a single family residence of the approximate square foot of floor space you want to build. How much will your plan check fee be?

These figures can vary from community to community, sometimes as much as ten to fifteen thousand dollars. As some municipalities have a tendency to use their construction fees as another form of taxation.

So be sure to ask. And find out if there are any existing C.C and Rs. Or any other restrictions on the type of structure you want to build. Will they allow you to build a two-story structure?

Don't laugh, I've been told I couldn't because it might interfere with someone's view. If you are going to be building on a hill, ask if they have any skyline restrictions. What is the required front, rear and side yard set back requirements. This is important as it determines how much area of your property is build-able.

How long is their permit process, including plan check (and don't believe everything they tell you, especially, if your in Los Angeles County). Are you required to make application to any other government agency, such as regional planning or the public library, do you need fire dept approval.

Are fire sprinklers required, Do you need a will serve letter from the water company. If so, check with the local water supplier to find out if they will give you a will serve letter.

Ask about school fees, how much are they? California charges a school tax. They call it a fee, which is another word for a tax that your politicians don't want you to deduct from your income tax. This tax varies from school district to school district. So ask. While you are in the Building Department ask them for any standard plans they may have regarding framing, foundations, retaining walls, garden walls, patio covers, detached garages or carports. These standards can and do vary from community to community, so always ask your Building Department for them.

Do not get discouraged. All you are doing at this stage is gathering as much information as possible, in order to make a knowledgeable decision by the end of your thirty day due diligence period.

After you have all of this information, it's time for you to sit down with your spouse, a cup of coffee and a calculator. It is time for both of you to make the big decision, possibly the biggest financial decision of your life. It is time to decide if you can really afford to be an Owner Builder to build your own home.

You know what your property is going to cost, and what your construction fees are going to be. Now, it is time to decide how much you are going to be able to put in your budget for the actual cost of construction and to decide if you really want to be an Owner Builder.

But keep in mind the fact that, you as an Owner Builder will be able to control the cost of constructing your home by deciding what you're going to put into it. More about that later. For now, let us look at some more figures and think about the average tract homes you've been looking at. The ones you felt were in your price range. But keep in mind the fact that we are still talking about the average tract house you liked. Let us imagine it was 2200 sq. ft. and sold for \$360,000. This is relatively low and in this, day and age, is referred to as a starter home in California.

\$360,000 divided by 2200 sq. ft. gives you \$163.64 per sq. ft. This would be the developer's sq. ft. sales price, which includes the actual cost of construction, including cost of land, permits and the Developers overhead and profit.

Now if the lot your considering is going to cost you \$36,000 and your permits would cost another \$8,000.00. That comes to \$44,000. Divide \$44,000 by 2200 sq. ft gives you \$22.00 per sq. ft. for land and permits. Deduct this \$22.00 from the Developer's \$163.56 sq. ft sales price, that would leave you, with \$141.56 per sq. ft. for your construction allowance.

Which multiplied by 2200 sq ft, would give you a total of \$311,432.00 to duplicate the construction of the developer's 2200 sq. ft. average tract house. \$311,432.00 divided by 2200 sq ft = \$141.56 per sq ft.

A construction allowance of \$141.56 per sq. ft should be more than adequate in any part of the country. But let's take a step back and look at that average tract house again and analysis it's cost.

AND THIS IS WHAT THEY DON'T WANT YOU TO KNOW:

The average tract house realistically costs a Developer from \$76.00 to \$88.00 per sq. ft. to build. Developer's overhead is usually 30 TO 35% or more of its selling price and builders profit is 10 to 15%. Let us use for an example, a combined developers overhead and profit of 48%. Now lets use this figure to determine the actual construction cost of the average tract house you were looking at with a sales price of \$360,000. \$360,000.00 less 48% overhead and Developers profit leaves \$188,000.00 or \$85.45 per sq. ft. as actual cost of construction. So if it cost the Developer \$188,000.00 build his 2200 sq. ft. average tract house and if you have a construction allowance of \$311,432.00. You should be able to build the identical 2200 sq. ft. house and save approximately \$123,432.00.

That is, unless your overhead is as great, or greater than the Developers overhead was.

Now, you should be able to understand how you could build that same identical house, while saving literally tens of thousands of dollars by being an Owner Builder and why so many people throughout this country today are deciding to become Owner Builders.

Of course a custom house could cost as much as 30% more, depending on what you as Owner builder, decided to put into it (More about this later).

While construction costs will vary considerably throughout the country, you should feel very comfortable with a construction allowance of \$145.56 per sq. ft.. Even if you add 30% for your custom home to the developers construction cost of \$85.45 a sq. ft. that only comes to \$110.08 a sq. ft. for a custom house. You should still be able to build your custom home for \$69,256.00 less than what it cost the Developer to built his average tract house.

When your designing your home, keep in mind the fact that, the most expensive square footage in any house you build is the kitchen and bathrooms. This of course, is due to the plumbing fixtures and kitchen appliances. Meaning you could very likely build little larger bedrooms, family room or living room while increasing the cost of your overall construction very slightly.

I also want you to look at the set of comps your realtor gave you. Remember you asked her to run the comps on comparable vacant properties and also on comparable houses that sold in your immediate area in the past year. Look at the sq. ft. price those houses sold for. That should give you a pretty good idea of what your house will be worth when it's completed and I know you'll be pleasantly surprised.

Just a few words of caution:

While it is true that you should be able to build your custom, "Dream Home" for less than the developer built his average tract home. It is also true that you could get in trouble faster than he could. Because if he goes over budget, all he has to do is raise his selling price. If you go over budget you have either to hock the kids or dig deeper in your pocket and I do not know how deep, your pockets are or what your kids are worth. So please don't let your dream home turn into a nightmare. Sit down with your spouse and decide how much you can realistically spend on your Dream

Home and chisel that figure in stone (more on this later).

NOTE:

I know there are many who will read this book and say "Those figures couldn't be right, we couldn't possibly save that much money building our own home."

And, you may be right, these figures may not be right, their probably too low.

I recently received a call from an Architect friend, who knew I was writing this book. He told me that he wanted me to see some tract houses under construction in Valencia California. I wasn't too interested, but he assured me, I would be when I saw these houses. He told me who the builder was. One of, if not the largest builder of tract houses in the country.

I still wasn't too interested until I asked him how he was involved with these tract houses. He said a client of his bought one of the houses while it was still under construction and wasn't too happy with the way it was being built and wanted him to begin drawing plans to remodel and correct what the new owners felt was inadequate construction for the kind of home they thought they were buying. I was glad Don could not see the smile I had on my face when I asked him, how big the house was and I was still smiling, when I asked him how much his client paid for it. I was not smiling any more when he told me \$865,000.00.

When, I asked him if this was a customhouse and he said no, just an average tract house. I knew I had to see this \$865,000.00 average tract house.

And that's exactly what it was a tract house, several square blocks of average tract houses. The house Don showed me, was a two story 2700 sq. ft. house with a two car attached garage on a concrete slab, with concrete roof tile. The house was wrapped, with wire lath for a three-coat cement plaster, and stocked with ½ drywall. It had 2x4

exterior wall framing, PVC waste and vent plumbing, Romex electrical wiring, fiberglass bath tubs, TJI floor joists with ¾" OSB floor sheathing, engineered truss system, ½" OSB roof sheathing. It had one pre-fabricated metal fireplace and vinyl CPVC Charlotte hot and cold water pipe instead of copper.

After seeing how they were building these houses, I wanted to see how they finished them, so we went to see the models. I must admit, they did show nice with 9-foot ceilings throughout. 8ft pre-hung Andersen doors and windows, combination wood and wrought iron handrails, nice pre-finished cabinets. I looked for a manufactures name, but couldn't find it. But I knew that I have bought pre-finished cabinets at the Home Depot and Lowe's Home Improvement Warehouse that more than matched their quality.

Cultured granite counter tops and whirlpool cook top, microwave, dishwasher and a Sub Zero refrigerator. The master bath had a whirlpool tub, stall shower and ceramic tile floor. There was a 5' high masonry, property line wall but no sprinkler system or landscaping.

I know their property was expensive because I priced it years ago, when it first came on the market. Even considering the Andersen doors and windows. Cultured granite countertops, sub-zero refrigerator and whirlpool tub, I would have to say the actual cost of construction would be 80 to \$90.00 a square foot, excluding Developers overhead and profit. Not anywhere near the \$320.00 a square foot Don's client paid for the house. And even at \$865,000.00 it was still just an average tract house only it was built on very expensive property.

While I felt these houses were overpriced, I must admit, they were selling like hot cakes. Which, put me in mind of something Barnum, of Barnum and Bailey said. Something about, one being born every minute. Well you know what I mean.

Owner Builder's often save forty to sixty percent of what it would cost them to purchase a new home.

You Can Still Afford a New Home, Build it Yourself!

"Owner Builder's Manual" How to save 40 to 60% of the cost of a new home.

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