

BUILDING AN EXTRAORDINARY CUSTOM

# HOME



WHAT YOU NEED TO KNOW



Marv Ritter, Walt Arway  
and Terri Smith-Pfeiffer

with Dave Konkol

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BUILDER'S PUBLISHING GROUP, LLC







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Building An Extraordinary Custom Home  
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This book is a work of advice and opinion. Neither the authors nor the publisher is responsible for actions based on the content of this book. It is not the purpose of this book to include all information about building a house. The book should be used as a general guide and not as a totality of information on the subject. In addition, materials, techniques and codes are continuously changing so please understand what is printed here may not be the most current information available.

This book contains numerous case histories and client stories. In order to preserve the privacy of the people involved, the authors have disguised their names, appearances, and aspects of their personal stories so that they are not identifiable. Stories may also include composite characters.

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## DEDICATION

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*Although there are hundreds of people who have been by our side as our business developed over the last 30 years, we'd like to dedicate this book to our families, employees, sub-contractors, suppliers, bankers, friends and of course, our clients. Each of them have provided direction and inspiration to our day to day lives and in so many ways have helped us create the vision for our future.*

*To our kids. Brian, Carrie, Brendan, Beth, Kevin, Roger, Rose and Ereck. Although you didn't get to choose us, we were blessed to have had the opportunity to choose you. Each of you have grown into wonderful, thoughtful adults. Thank you for being by our side on this journey (and oh by the way, if given the choice again, we'd choose you every time!).*

*Deb Fleming Ritter, Laura Show and Steve Pfeiffer. You are the reason we are here. Thank you for your deep understanding and support which allowed us to create and thrive in the business we love.*

*We would also like to thank David Konkol and Amanda Richey for their vision and guidance in writing, editing, and publishing this book with us. We couldn't have done it without you!*

*Marv. Walt & Terri*

Marv, Walt and Terri  
November 2019

## AN IMPORTANT NOTE FROM THE AUTHORS

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Please note: Although there are three co-authors on the book they have chosen to write in the first person singular (I, me, my, etc.), as if only one person were speaking. This makes both the writing and reading much easier. So, although stories, illustrations, or examples may come from any of the authors, they have been written as if coming from “one voice.”

Also note: In order to achieve an easy flow of language, this book has been written using the singular pronoun “he” when referring to a builder. The authors realize there are many wonderful builders who are women, but have chosen to avoid the awkward use of “he/she” and have chosen instead to use the traditional masculine pronoun when referring to a builder. No offense is intended in this regard; the decision was made merely to achieve simplicity and flow of language.



# BEFORE YOU BEGIN



**O**ver the years we have had hundreds of conversations and been asked countless questions about the things you need to know before building a custom home or undertaking major renovations or additions to an existing home. To us, the answers are simple and straightforward as we have been building and remodeling custom homes for most of our adult lives. If you have never built a custom home, are considering building another one, or undertaking a major addition or remodeling project, this book is for you. It is a quick read that gets straight to the point and provides the answers you need to make informed decisions. You can probably read the entire book in a few hours.

So why did we write a book on what you need to know before building or remodeling your one-of-a-kind custom home? We suspect this knowledge will save you thousands (*if not tens of thousands!*) of dollars. More importantly, it may save you time and a lot of head and heartaches. Many of the insights in this book were discovered the hard way – by learning from our own mistakes. We are still learning. Our desire is to share practical information in an easy-to-read format to help you through the entire home building or remodeling process. From planning, designing and building there is a lot to consider as you create the custom home of your dreams.

Collectively Walt, Marv and Terri have built hundreds of homes and remodeled many more. We have seen both the best and the worst projects. Through the years, we have developed systems and processes which allow us to gently guide our clients through the journey of creating extraordinary custom homes for their families, regardless of their budget.

If you ask someone who has recently built a custom home or undertaken a major renovation or addition, you may hear a horror story about their experience. Perhaps four out of ten people will say their experience was “fair”, and only one in ten will say their experience was “great”. Our aim is for you to be in the group that has a great experience building their dream home; to see it in your mind, and perhaps even sketch it out on a napkin over lunch with a friend because you’re so excited about your unique vision.

From there, we can help you visualize your home with two dimensional (2D) concept drawings, bring them to life using three dimensions (3D) on a 70" screen in our conference room, *and if you're up for it*, watch you physically walk through your new home, renovation or addition in our office with our Virtual Reality System (VR), all before a single 2 x 4 has been delivered to your home site!

These simple steps will help ensure the design and construction of your new home will create the living space you have envisioned, delivered on-time and within budget. Almost sounds too good to be true when compared to the other 9 out of 10 people who likely skipped many of the items within this book!

Of course your home will be more than just a structure. It's an extension of who you are. It's the place to raise your family, dream your dreams and live them to the fullest. As concrete, wood and glass make a house, your family will make it a home which you will cherish as laughter fills the air, sad moments come and go, and wonderful memories are made.

Our hope for the people whose homes we build is, someday – perhaps ten or twenty years later – be invited back so we can visit together and reflect on the memories which have been created in their home which once was nothing more than their dream. It would be a treasure to feel the fullness in the air which holds all the laughter, tears and memories of years gone by and share together what life has brought.

There are few things as personal as your home. Making the choice to build a custom home can be one of life's most rewarding adventures. Without the right information it can also be filled with unforeseen problems and delays. We want you to have the best possible experience in your home building process. This book can be an essential and helpful resource. For the past 30 years, our company has been building extraordinary custom homes for discriminating buyers. The information in this guide are highlights from our experience over the years. It will help you make more informed choices, have less stress and greater confidence throughout the entire process. Are you ready to get started?

Here's to building your dreams...

*Marv. Walt & Terri*

Marv, Walt and Terri

P.S. If you crave additional detail after reading this book, reach out to us to learn how you can get a copy of our first book, *“What to Expect When Building a New Home”*, subtitled *“Straight Answers to the Questions Smart Homebuyers Ask Their Builder”*. Our “What to Expect” book dives much deeper into issues that help our clients master key home construction issues. This additional knowledge will help them make better home building decisions which often results in even lower costs, reduced risks and shorter elapsed times related to the construction projects they undertake for their new homes, renovations and additions.

Since 1990, we've built some of the most beautiful homes in the western suburbs of Chicago.

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Can we build or renovate one for you?









# **PART I**

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## **BEFORE YOU BUILD**



“It’s time to start living  
the life you imagined.”

- Henry James

# 1 Should I Build, or Should I Buy an Existing Home?

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**“T**o build or to buy.” That’s the primary question to answer before building a new custom home. To help you decide, ask yourself these ten important questions. Be very honest. Answer each one carefully. Keep in mind that there are no right or wrong answers. You’re simply trying to determine the best course of action at this point in your life.

Questions to consider:	Yes	or	No
1. Do I have a hard time making decisions?	<input type="checkbox"/>		<input type="checkbox"/>
2. Once I make decisions, do I struggle with wanting to change them?	<input type="checkbox"/>		<input type="checkbox"/>
3. Am I a perfectionist?	<input type="checkbox"/>		<input type="checkbox"/>
4. Is my schedule so busy it’s difficult to find time to do the things I enjoy?	<input type="checkbox"/>		<input type="checkbox"/>
5. Does uncertainty and lack of control add stress to my life?	<input type="checkbox"/>		<input type="checkbox"/>
6. Am I regularly disappointed by interactions with other people?	<input type="checkbox"/>		<input type="checkbox"/>
7. Do I handle conflict by looking for the win/win solution?	<input type="checkbox"/>		<input type="checkbox"/>
8. Do I have some available time in my life for the next 12 to 18 months?	<input type="checkbox"/>		<input type="checkbox"/>
9. Am I realistic enough to recognize that things aren’t always perfect?	<input type="checkbox"/>		<input type="checkbox"/>
10. Is our family life stable enough to handle the additional activity?	<input type="checkbox"/>		<input type="checkbox"/>

If you answered “no” to the first six questions and “yes” to the last four, you’re ready to build! If not, you may want to consider waiting on the building process. If your answers were different on more than three or four questions, we would suggest you buy a house that is already built.

In a consumer-driven economy, many families have been stretched and stressed because the timing wasn’t right or they weren’t the right profile of person to be building a custom home. They would’ve been better off buying an existing home than going through a process that wasn’t suited for their life stage, temperament, or timing.

Let’s look at an example of a couple that wasn’t ready for the custom homebuilding process: In some ways, Josh and Melinda seemed to be ideal candidates to custom design and build a new home. However, it soon became apparent they had difficulty making decisions (see question #1). In addition, Josh was consumed by the demands of his business since he had just launched his own company three years before (see questions #4 and #8).

Josh and Melinda were habitually late for their appointments. In addition to the pressing demands of business, it turned out they were in the midst of an intensely personal family situation that was consuming their time and attention (see question #10). It became apparent that this lovely couple did not have the time at this point in their lives to spend custom designing and building a home. A quick look at the 10 questions above clearly indicated it wasn’t an ideal time for Josh and Melinda to build a new home.



*Carefully consider the decision to build or to buy  
before beginning the design/build process.*



## Which Comes First: The Builder or The Designer?



**J**ust like the proverbial “chicken and egg” question, “Which comes first?” is a question that confuses some people, but must be answered before you start the custom, homebuilding process. While the answer may seem obvious, it’s important to know the right answer in order to avoid problems from the beginning. The designer comes before the builder, right? Wrong! Read on...

Sometimes people get the cart before the horse and in all the excitement, they get ahead of themselves. Mike and Janine thought they had done it all right. They had a roll of plans tucked under their arms, a sparkle in their eyes, and a skip in their steps because they knew they had something very special—they had the plans to their dream home.

During the last several months, Mike and Janine had spent countless hours dreaming about their new home and holding meetings with their designer. They went through revision after revision pouring over the plans until late in the evenings. The couple worked tirelessly to make every room just right—put the baby’s room here, move the daughter’s room there, make that closet just a bit wider, add two feet to the kitchen—giving instruction upon instruction to their designer about each room.

Their dream home included the newest ideas from This Old House, the latest trends in low voltage lighting, and cutting-edge insulation that could lower energy bills by up to 90 percent. It had a cabana like the one they saw while vacationing in Acapulco, layers upon layers of moldings, extra tall ceilings, an additional bay in the garage, a steeper roof that was changed—not twice, but three times—because their friends told them it looked too shallow.

Mike and Janine were now ready to find a builder. They were so excited! Janine was bubbling over with her plans—holiday decorations, birthday parties, and dinners with all the aunts, uncles, cousins, and grandma. They had their finished plans and they were now ready to build. They could see it; they could taste it; they could hear the sounds of laughter around the table.

And then the moment of truth arrived.



They were ready to talk to a builder and get him started on their new house. But here was the problem: the actual cost to build this house—the house they had labored over for so many hours, over so many months—ended up costing 40 percent more to build than they expected.

How did this happen? Well—they asked the designer and he gave them his estimate of what it would cost. That's what they based their plans on. The designer's estimate.

And that is the problem. The designer is not trained in doing cost estimates. This news was so devastating to them that Mike and Janine just rolled up their plans, walked out the door, and... sold their lot.

Their dreams had been shattered and they were crushed. After all their initial efforts, they couldn't gather the energy to start the process all over again. But it could have been different. If only this enthusiastic couple had known the importance of which comes first: the builder, not the designer.

If you're in this predicament and you're unwilling to sell your lot, turn the page and discover what happens next by reading Jim and Linda's story.



*Meet with your builder and discuss your budget before  
you meet with a designer.*

## 3 Forcing a Round Peg into a Square Hole Finding a Competent Builder

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**J**im and Linda were the kind of people who refuse to give up. Sometimes persistence is a good thing, but there are times when pushing too hard is unwise. This couple, for instance, were unwilling to listen to sound, professional advice. They forced their opinions and ideas on a builder—and it was like forcing a round peg into a square hole. It just didn't work. Even when they realized they had received inaccurate advice from their designer about their homebuilding costs, they wouldn't give up their dream.

So they began to shop in earnest for a builder who would build their home for the price they were told. Would Jim and Linda find a satisfactory and skilled homebuilder?

Maybe. But the builder they seemed to want—one who would be the answer to all their problems—would have been either a builder who was desperate for work or one who didn't know how to price a home.

Finding a competent builder can be challenging, but when you know what to look for, you'll get an accurate estimate and good advice. Many builders won't (or don't know how to) price a home while it's still in the concept stage. If most builders can't do this, it certainly makes sense that most designers can't either. After all, designers are trained and skilled in designing and creating what they are asked to create. Homeowners who don't have a good handle on pricing will tell the designer what they want and the designer will only do what he was retained to do. We're not blaming designers for not knowing about estimating accurate costs; it's not their area of expertise.

After dozens of exhausting interviews with many builders, Jim and Linda got their homebuilding costs down to a price that was only 20 or 30 percent less than the initial estimate—still well over their budget. But they didn't want to give up their dream; they were willing to do anything to bring their dream to fruition.

At this point, Jim and Linda had some choices to make. Instead of cutting their losses and stopping the spending, they continued to pour more and more money into a project that wasn't suitable.

There are plenty of potential homeowners who receive bad advice from a builder and find out one or two years later that their building project is a disaster. Sometimes they begin frantically calling reputable builders in the middle of a project, pleading for help because they finally realize they have relied on poor advice and ended up involved in a lawsuit with their builder.

Please don't do this to yourself. Save yourself and your family the agony of lost time, lost dreams, or lawsuits. Life is too short. It's not worth it.

Get good advice from a competent builder. Interview several first to determine the right one for you and your custom home project. A competent builder will explain the homebuilding process and all the steps along the way. He can guide you through the entire process so you feel confident and secure in your purchase decisions. His firm will have an excellent reputation and be up-to-date on building codes, land, and procedures. Check out the company's references and previous projects completed.



*Make sure you get good advice from a competent builder.*

# 4

## Do I have to Like My Builder?

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**S**o now you've selected a competent builder. But you may ask, "Do I have to like the guy? If he has a good reputation as a builder, does it really matter if I like him?"

Yes, it matters. Don't sign a contract with a builder you don't like, trust, or respect. If you do, you could be headed for trouble.

Why? Because this is a long-term relationship and a long-term relationship with someone you don't like, trust, or respect can be challenging, frustrating, and more than disappointing. The planning stages of custom building a new home can take anywhere from months to years. Actual construction may range from six months to 24 months or longer, depending on the size and scope of your home. Add to that a one year limited warranty time period, as well as the fact that you may need additional information from your builder for many years to come regarding warranty information, vendor and subcontractor contacts, and other nuances.

In this business, it's not uncommon to lose some contracts to other builders, and it usually boils down to perceived costs. A prospective homeowner may initially think our pricing is higher than our competitor, but most often that's because we didn't have the opportunity to thoroughly compare the two proposals.

We like to ask our homeowners why they chose us to build their home. Often the answer is trust. When challenges arise in your project and you call to ask questions, it's important to know that you'll get a straight and honest answer.

Do you respect your builder's values? You don't have to socialize together, but sometimes people choose a builder they actually dislike. Maybe the husband likes the builder or his price, but his wife doesn't care for his style, approach, or manners. Ask yourself this question: Is there a reason you're uncomfortable with this person? If so, why in the world would you trust him to build your single most important investment? If you or your spouse sense that a potential builder operates from a less-than-honest value system, why would you trust him to operate his business with honest values?

During the construction process there will be times when your builder will be making some judgment calls. Many of these will be

unknown to you, and that's just part of the business. When it comes to your home, you'll want to know your builder will be making choices as if it's his own home, as if his own family's safety depended on the choices he makes. Not just what will pass code inspections. No shortcuts for a quick profit.

Are values important? You bet they are!



*Don't sign a contract with someone you don't like, trust,  
or respect.*



## Pick Three Out of Four: Quality, Speed, Service, Price

---

**J**im and Susan had six-count ‘em, six-separate flooring companies at their home in a three week period providing estimates to sand and refinish their hardwood floors. About a month later, an unusual sound came from Jim and Susan’s house, loud enough that everyone in the neighborhood heard it. There was an explosion of screaming and yelling that continued for several minutes. A hardwood flooring van was parked out front; can you guess what happened? The couple expected a beautiful, high-quality floor, but what they got was what they paid for. They were not happy.

Jim and Susan had selected their hardwood flooring contractor based strictly on price, but somehow they expected they would receive quality, speed, service, and the best price. Sure, they probably got the lowest price, but with it came a lot of heartache because they expected more and got a lot less.

It’s no different than selecting a builder for your custom home. You need to determine what you value and decide what’s most important: quality, speed, service, or price. Of course, you want all four components, but most often you will need to find a builder who can provide three out of four. That’s reality. Is it reasonable to expect you’ll get a builder who will give you the lowest price with great quality, great service, and a timely finish?

Let’s consider the merits of each:

1. **Quality:** A good company prides itself on providing a quality product, especially in the custom home market. They encourage prospective homeowners to look closely at the work they’ve done for other homeowners and affirm they would be pleased with the excellent workmanship the company provides. Comfort with quality, luxury with outstanding craftsmanship.
2. **Speed:** An on-time finish is important, but there may be times, especially in a busy market, when a builder misses some deadlines. If that happens, you want your builder to proactively communicate with you and, if possible, find a way to make up the time and get it done quickly.

3. **Service:** A builder with exceptional customer care will provide good communication and attend to the homeowner's needs before, during, and after their home is completed.
4. **Price:** The best companies aren't usually the cheapest, but consider this: they're probably not the most expensive either. Great companies deliver good value. An honest builder charges at or below market value for the level of service and quality product they provide. Very seldom is the cheapest price the best choice for a homebuilder.

Don't make the mistake of thinking you can have all four qualities in one builder. A Lexus or a Mercedes is priced differently than a Pontiac. If you pay Pontiac pricing (like Jim and Susan) and still expect a Lexus or Mercedes level of performance, you are setting yourself up for disappointment, conflict, and sometimes even a lawsuit.

Know what's important to you and adjust your expectations. If cost is your most important value, then choose the contract with the lowest price. However, if you value quality, be sure you look for excellent workmanship. You can get the results you want in a quality, custom home; just be sure to select your builder based on what you truly value.



*Realistically expect to get three out of four components from your homebuilder. Decide what's important to you.*

## Where Should I Spend My Money? If You're Going to Err, Do It Here

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**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 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, in-town, walk to train, and waterfront properties experience stronger growth in value than others. If you like being near the center of activity, often commute to via the train or love to be near water, seek out locations that cater to those needs. Your long term investment in locations such as those are likely to pay off more in the long term.

**Design Services:** You can add enormous value to your home by investing in the services of a competent 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.

**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.

**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.



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

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

**W**hen 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 and quartz are ideal counter surfaces for the most important room in your 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 home 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 its relationship to other rooms, functions, and features are the best you can provide. It will make a difference for years to come.



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

# 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 which 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. We encourage couples and families to have these discussions as soon as possible so 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:



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.



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.



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 on first and second floor:			
Number of Stories:	One	Two	Bays in Garage: Two Three Four

### The Combined List of Priorities:

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



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

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

## Part 1: Fixed-Price

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**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 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 for every minor defect, expecting the builder to repair or replace them at the builder's expense, the builder

had better have included “fright” in his initial cost calculations. With a fixed-price contract, the cost of repairing or replacing imperfections which are agreed to be material in nature by the builder, will be done at the builders cost.

Generally, homeowners with a fixed-price contract are not inclined to expect material imperfections to be repaired or replaced by the builder, because it typically won’t cost the homeowner 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 fixed-price custom homes, builders frequently create monetary allowances for a variety of items the homeowner is likely to select. The items the homeowner selects typically will be priced either at the builder’s actual cost or at cost plus a pre-defined markup and can be standard amounts provided by the builder, or customized allowances based on the builder’s understanding of the client’s needs at the time the contract price is established.

Common examples of allowance items may include:

-  Appliances
-  Cabinets
-  Countertops
-  Doors and windows
-  Landscaping
-  Lighting fixtures
-  Plumbing fixtures
-  Tile, carpet, and hardwood flooring
-  Whole house stereo and entertainment systems
-  Others as determined by the builder

If the homeowner selects items that cost less than the allowance, the builder will issue a credit to the homeowner. If the homeowner selects items that cost more than the allowance, the homeowner will be asked to pay the difference.

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.



*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 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 when evaluating the magnitude of minor blemishes in the finished home.

If you trust 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.



*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.*











































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# 11

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

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**T**here 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?” We suppose it’s because we’re builders, but we 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 us 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 changes may occur during the building process. For instance, a homeowner 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.



*Know what you can afford before you begin.*

# 12

## Buy a Plan or Custom Build? Read This Before You Decide

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**S**hould you buy a ready-made plan for constructing your new home? It depends.

If you have a large lot that doesn't have restrictive setbacks, then finding and buying a ready-made plan may work well for you. It's important to know most plans you find in a plan book are designed for specific lot sizes and regular shaped lots. If your lot is long and narrow and the plan is designed for a lot that's narrow and long (just the opposite), you could have a problem.

Sometimes people will use the "cut-and-paste" method. A couple will take a plan from a plan book and "cut-and-paste" it to make it fit their lot. Be careful with this method. Judy was a woman whose cut-and-paste plan didn't work out the way she'd planned; it required you to walk through one bedroom to get to another bedroom.

If you can find a plan that fits on your lot with little or no changes, it may be a good option for you. However, very few people are completely happy with a design they find in a plan book without making minor to major modifications.

If you are thinking of buying a ready-made plan and just shrinking it, it almost certainly will not work.

Most good, custom-home builders have successfully built homes from ready-made plans. Typically they purchase the rights for the plan, make any needed modifications, and proceed to build the house. Note some states, including Illinois, require blueprints to be signed by a licensed architect. If you plan on purchasing a stock plan from the internet or other source, make sure you understand who will be providing the licensed architect signature should your state or municipality require it to obtain a building permit.

Be aware ready-made plans are copyrighted. Your builder can purchase the rights for the plan, but be sure this step is not overlooked. You can get in real trouble down the road if you shortcut this step.

For people who don't choose a standard plan, some builders offer a complete design / build package. Usually this process starts by evaluating the shape of the lot; it's important to take into account its positive and negative features. The builder then takes the homeowner's completed list of their prioritized needs and wants and



begins the design process. At your initial meeting with the builder, it's an important step to review the design and to ensure the designer and homeowner have a complete and thorough understanding of needs, wants, and budget. Once the builder has clearly identified your objectives, he can work with the designer to create a unique, quality, custom home—the home of your dreams.

As builders, we've found it doesn't necessarily cost any more (and often we've discovered cost savings) by first focusing on and designing what our homeowners most need while also taking into account what they want. In doing so, we've found great success because the process allows us to optimize the conditions of the specific and unique lot instead of having to work from an existing design by enlarging or shrinking areas in the home.

With clear objectives and a good plan, you can focus your energy and resources on your unique needs for your new home.



*If you can find a ready-made plan that requires few or no changes, consider purchasing it only if you have access to a licensed architect to sign the blueprint, should that be required to obtain a building permit.*

# 13 Surprises That Could Inflate Your Custom Home Cost

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**E**arly in the design process, your builder should work with you to create an estimated line-item budget for your home (if you have a cost plus contract) or for your allowance items (if you have a fixed price contract). 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 anticipate and similar to other homes of equivalent size, design and finish of work you've seen in homes your 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 which 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 which 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 the homeowner will be happy with for years to come.

After listening to the needs of the homeowners, a builder will establish allowances which 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.



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

# Design Your New Home With Resale in Mind

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**W**ho 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 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 Realtor to be sure you're not building a home 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.



*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 “This is the last home I will ever build. They will have to bury me in the back yard.”

Recent surveys show most people live in their home between 5 and 10 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 which may become obsolete for your family within a short period of time.



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

# 16

## Should I Hire an Attorney?

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**S**ome 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 our previous homebuyers.

As we and Monica 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 nearly a year 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 us to say her attorney had reviewed our contract and advised that it needed to be completely rewritten. We told Monica we'd been using this contract for many years and had never experienced a request like this. We suggested she ask her attorney for specific comments and told her we are confident we could work through the issues. Monica agreed and said she would get back to me.

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

A few days later, we met with Monica, and she affirmed she would not be building with us. We told her we were 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 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 our neighborhood, so every few months we 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, we observed 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.

We're not bashing attorneys here; some of our best friends are attorneys. In fact, we have a great attorney, but he provides essential advice that complements who we are and what we do. He helps us 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.



*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.*



# 17

## How Much Do You Charge Per Square Foot?

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**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, we feel perplexed when someone asks us how much we charge *per square foot* to build a home. It's not the right question: There are four factors which contribute to the cost of your home, regardless of where it's built: the developed cost of the lot, plus the complexity, level of finish and size and components.

1. **Lot:** The developed cost of the lot. This covers the purchase price of the lot (or current value if you have owned the lot for a period of time, plus soil tests if needed, engineering, surveys and improvements such as bringing streets, driveways, water, sewer, gas, electric and other utilities to your building site. As part of these types of land development costs, don't overlook repairing streets and other items that may be damaged as part of the development of the lot. If an existing home needs to be demolished and removed to make the lot buildable for your new home, this should also be added as part of the lot development cost. In many situations, impact fees, bonds and permit fees will need to be added to the cost of the project.
2. **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.

3. **Level of Finish:** Obviously, vinyl flooring is much less expensive than wood or stone. Formica countertops are less expensive than granite or quartz. 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.
4. **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.



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

# 18










## Welcome to Art Class! Create a Dream Home Notebook

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**N**ow 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 home idea magazines and tear out pictures of features you really like or want in your home, or create an online portfolio from pictures you have seen on the internet at sites such as Houzz, Pinterest, Instagram and others. Look for the features you really like or want in your home, and just like you did in art class, start collecting them in a central place. 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 or notate on each picture specifically what it is you like about it. Why did you include the picture? People often begin collecting pictures but months later they can't recall why they saved the picture 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:

-  Exterior features
-  Kitchen features
-  Master bathroom and bedroom
-  Common living spaces
-  Specialty items such as fireplaces and mantles
-  Trim details, paint colors, textures, styles, etc.
-  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.
-  Things you specifically DON'T like
-  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.



*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.*

# 19

## Close Enough to Perfect? Identifying Expectations

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**A** homebuilder's goal is to create a well-built, attractive home which 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 we often do: When we have a complete or nearly complete home available to show, we make an appoint to meet our new prospective homeowner for a walk through. As a custom homebuilder who builds a small number of high quality homes per year, this option isn't always available, as we generally do not ask our prior homeowners if we could show their home, after they have already moved into it. Although it would be a great selling tool to show each of our prior successes, our prior clients, and we assume you, prefer not to open their homes to strangers for our marketing purposes. Once you have become a client, we suspect you will appreciate our policy on this too.

If we have a home to show, we'll schedule an on-site meeting with a very defined plan to walk through the home together and thoroughly inspect all aspects of the home. We take about one hour of uninterrupted, private time to walk through the home. If a home is not available, we have hundreds of pictures available in our showroom, along with samples of many material types which we can share with potential clients.

When we are meeting at a newly built home, we start our interior inspection in the foyer. As we point out the features, we 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, our wide-eyed prospective homeowners nod affirmatively. Before we move on to the next room, we take a moment and encourage them to look closely at the finish. We tell them that a paint job can never be perfect; we may find a blemish or two on the walls or in the trim work. Then we ask again, "Would a paint job with these imperfections meet your expectations?" Usually, they say

yes. Then we ask them to rub their hands over the trim work to feel for smoothness and any imperfections. We're actually looking for some imperfections in the paint job because we 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. We 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 12 months into the building of your new custom home, only to discover each of you had different expectations. We 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.



*If possible, schedule a one-hour private showing of a home your builder has recently completed. Tell your builder whether the quality meets your expectations.*



## 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 us because if we build the home the way they want, we know they'll regret it. On the other hand, if we don't, they won't be happy with us. In fact, we've sometimes lost building opportunities simply because we want to be straight with people when it appears they're pushing the envelope of costs.

Of course, we know we're not our clients' keeper regarding how they spend their money. But as a professional who values integrity, we believe we 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 we 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 Bluetooth sound system (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 17" aluminum rims, 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 we notice costs are beginning to exceed the homeowner's budget, we tell them that it's our responsibility to communicate this to them. The final choice is up to the homeowner. Ultimately, we want them to be happy and financially healthy with their finished dream home.



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

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## The Hidden Pot of Gold in Your Pocket

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

Many times, however, we'd work fervently to create a design, size, and features to meet the homeowners needs and wants within the budget they presented, only to find out later 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 us. 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 us several times, we 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 if I ever had the opportunity to sell someone a product or a service, I'd never sell that way.



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

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



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

## Choices, Choices, Choices! Choose Before You Lose



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

Yes—all selections!

Before we learned how important this was, we noticed 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. We gave Randy deadlines for his selections and every single deadline was missed. When it was time to make his paint selection, he asked us, “Well, when do you need it?” We said we needed it two weeks ago, and he said, “But when do you absolutely, really have to have it?” We told him “Friday” and he promised me he would have the paint selected by Friday.

Well, Friday came and went with no paint selection. We 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 us 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. We were 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 our next job, and our reputation as builders 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 consider retaining a competent interior designer who complements your style and, 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.



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

## The Startling Step Most New Homeowners Fail to Take

**O**btaining references for your builder is critical to selecting the right builder for your new custom home. Although custom builders are often reluctant to share contact information of their prior clients (think about it, do you want to have potential clients of your homebuilder calling you months if not years after you moved into your home), obtaining references from local Realtors, building departments, real estate attorneys, home builder associations and online services such as Houzz can be very helpful. It's important to understand their reputation and how they perform within the terms of their construction agreements.

It's important to realize, one builder can't be all things to all people. Each builder will have strong points as well as limitations. After all, they're human! If you are looking for the "perfect" builder, we have some bad news for you. One doesn't exist. However if you're looking for a builder who is 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:



Have they been in business for 10 years or longer, who are likely to be here for the long haul?



Are they financially sound?



How did they meet their financial obligations during the 2007 - 2010 housing bubble?



What is the quality of homes they are known for?



Are their home prices within your financial budget?





Will they help you financial engineer your requirements with the true cost of building a custom home?



Do they operate with honesty and integrity?



Are they licensed and insured to work in your community?



Do they maintain a local showroom and office space where you can meet with them, vs. two guys and a truck that may require you to meet at Starbucks or Panera Bread to discuss your project?



Do they have business hours that are flexible, allowing you to meet with them in the evening or on a weekend occasionally as necessary?



Are their three best qualities, in line with your core beliefs?



Which of these three traits describe them best: Quality, Speed, Service and Price?



Is their construction agreement detailed and complete?



Are they in good standing with the local building department and Board of Realtors?



Are they active members of their local Chamber of Commerce and Homebuilding Association?



Do they have solid, long term, skilled employees and quality sub-contractors on their team?



Do they stand behind their work?



And the most important question: Do you like and feel comfortable with them?



*Get to know your builder well, with the goal  
of understanding their strengths and weaknesses.  
Remember no builder is perfect.*

## 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 you really need nicer plumbing fixtures, upgraded light fixtures, and so on. We've found 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 electrical fixture allowance of \$4,000 for example, and ask us to increase it to \$8,000 some of our clients will still find ways to exceed it.

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



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

## Don't Buy That Lot! Call Your Builder First

**P**eople sometimes call us when they are “almost” ready to talk to a builder. They’ve been looking at lots and have narrowed their choice down to two or three options. As soon as they purchase their land, they want to talk with the builder to discuss the home they want to build on it. Instead of buying a lot first, we advise people to first talk to a builder.

Request a meeting with your builder to look at the lots before you buy one. If you’ve never purchased a lot (and most people haven’t), you could be walking into serious issues you’re unprepared to handle. Before you buy a lot, there are several things to consider. If you purchase land based primarily on price, you may discover unexpected additional costs and issues later on.

Here are just a few items you need to know:



Fill dirt may be needed that may cost thousands of dollars.



Often it’s necessary (especially on lakefront lots) to do soil testing to ensure the soils are suitable to hold the home in place.



Testing for the suitability of a septic system (if applicable) may need to be conducted. Often, local health departments will increase their requirements for septic systems. Sometimes they require a mounded septic system which can be an unexpected additional cost. The homeowners may look at the lots adjacent to theirs and assume the septic system can be placed below ground, only to find a raised mound system is now required by the local municipality, and that can be very unsightly in the front yard.



Impact fees may be required on the lot you plan to build on, adding potentially thousands, or tens of thousands, of dollars to your project.



Local zoning requirements may have restrictions regarding the front, side, and rear setbacks that may be more limiting than a buyer realizes.



Some municipalities have lot area coverage ratios. This means restrictions are placed on how large a home you can build on the lot. In some cases, there may be existing proposals to restrict lot coverage ratios. If you unknowingly have outdated information, you may be designing a home that is too large for your particular lot. You can spend six to twelve months designing a home, only to discover local municipality restrictions preclude the building of the home you just designed, and that may mean thousands of dollars of expenses and many months of wasted effort.

Of course, this is just a short list of issues to consider before you buy a lot. We suggest you meet with an experienced, professional builder before you sign on the dotted line to purchase your lot. Obtaining current, accurate information allows you to make an informed buying decision.



*Talk to your builder first; buy the lot second.*



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

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

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

We followed up with a letter to Ross affirming that we thought it was a good idea for him to *interview* six builders, but from our 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. We suggested Ross narrow his scope down to one or two builders 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, we ran into Steve, the builder who had arrived after us at Ross’s lot that day. We 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.

We’re not advocating you only interview one or two builders, but we are suggesting you narrow your search down to one or two builders. When we know there are many builders competing for the same job (especially if the job doesn’t have a clear, defined focus), we decide to put our limited time and energy where we 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 we value. Then we can put more concentrated effort in to 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.



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

# 27 Excellence or Perfection?


A prospective homeowner once asked us, “Will my new home be perfect?” We 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 12-18 months, or more, out of your life only to be disappointed in people and processes which 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 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 us, when you build a custom home, things will go wrong.)

 Excellence is when your builder acknowledges their mistake and promptly corrects it without pointing fingers.

 Excellence is clear communication.

 Excellence is a quality home built with straight walls, functioning windows and doors with an overall good quality throughout the home.

 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 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.



*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 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 which 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 we 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.



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

## 29 What About Storage?

**I**f 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 which is 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 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.



*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.*



# How Do You Avoid a Builder Scam?

**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, find out if their workers compensation insurance is current or has ever been cancelled. Other great resources are the builder's local Chamber of Commerce and the 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 a builder could present a price that is too good to be true is to knowingly or unknowingly include allowances which 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 the level of quality the allowances provided 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.



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

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## Financial Smarts: Part 1 Where Do I Start?

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**W**hen 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 free for all about lender experience, 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 construction financing options 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 both volatile and calm 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 which 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 which 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 a small fee 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.



*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 or when the basement walls are put in place, framing completion, drywall completion, cabinet and trim completion, and the last draw will occur when the home is completely done. 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, but only to see if the builder has supplied the material and completed the work being paid for.

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 2.5 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 distributed to the title company to be further distributed to the builder and his sub-contractors upon submittal of final waivers of lien.

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. Give us a call if you need a recommendation, as we work with several lenders which are experts in Construction to Perm and end loans.



*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?

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**M**any 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 to 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 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 which 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.



*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?

**A**fter determining the best loan program for your needs, your loan officer will draw up a one-page document which 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 city, state, and 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.



*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.*

## What Kind of Warranty Can I Expect?

**A**n 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. Some builders may offer a Third-Party warranty that covers your new home for up to 10 years. Be sure to ask your builder if he offers this. 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 their 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.



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

# Is Going “Green” the Way to Go?

**T**oday many builders and home buyers are concerned about preserving the environment. With increased attention on the condition of our planet, “green building” has become a sought after choice for homeowners.

But what does green building mean? In its simplest terms, green building is making your home more environmentally friendly. It means increasing your home’s efficiency so it makes better use of things like water, energy, temperature control, and construction materials. It’s about using resources effectively so you reduce the impact of your home on the environment.

While building an environmentally friendly home sounds good to most people, they usually want to know two things: what can I do and how much will it cost me? Let’s address the last question first.

You may have heard that building green is more expensive. While that may be true in some instances, it doesn’t have to be. In today’s market some elements of green building can cost more initially, but many do not, and some even cost less. Factor in energy savings over time and the increased durability of many of the green building products, and any additional upfront cost becomes much easier to justify. Also, some mortgage companies now offer reduced mortgage rates to homes built green.

To answer the other question, let’s take a look at a few things you can do to make your new home more environmentally friendly.



**Heating and Cooling Equipment:** One of the most important things you can do to make your home more “green” is to carefully consider your choice of heating and cooling equipment. The heating/air conditioning system should be built and installed with the highest SEER (Seasonal Energy Efficiency Ratio) rating possible. The greater the SEER rating, the more energy efficient your unit will be.

The system should also be sized appropriately to effectively cool or heat your home without being oversized. In fact, it is often better to err on the side of being undersized by half a ton than oversized. (Note: A “ton” is a unit of energy used to measure



output. Typically you need about one ton of output for every 400 square feet of your home.) Many builders don't recommend you oversize the tonnage of your home's AC system. The most efficient homes often run on a system designed to be 10 percent smaller than typical installations. A good air system should also be installed with as few bends and connections in the duct work as possible to minimize the risk of gaps and voids.



**Insulation:** If it's within your budget, one great option is to have your home insulated with a foam product. When installed correctly, foam can be quite effective. On top of the good R-values (a term used to measure how well insulation resists the flow of heat or cold through it) foam can fill cracks and crevices in ways traditional insulation can't. If a foam product can't be used, great care should be exercised to make sure the installation is done to eliminate as many gaps and penetrations as possible.



**Home Orientation:** To reduce energy loads, it's important to design and position the house in such a way as to minimize exposure to the hot sun while taking advantage of cooling breezes. Whenever possible, the front door or the house's longest wall should be set to within 5 feet of true south. It may also be important to landscape in such a way to create wind breaks for the home or create shade to increase efficiency. Good window placement can increase natural light while reducing the need for electric lighting.



**Windows and Doors:** Windows help make a home beautiful, but they can also waste a lot of energy if they let in heat in the summer, cold in the winter, and drafts anytime. To get more energy-efficient windows, select ones with good insulation values. Some have special coatings that can help repel heat. Others are double- or triple-paned which helps insulation. Some energy-efficient windows have non-toxic gas between the panes such as argon or krypton that provide better insulation than air. Even the window frames can affect how efficient they are. For example, aluminum frames typically provide lowest insulation level. Wood, vinyl, and fiberglass are better. Warm-edge spacers are even better. Certain window coverings like reflective blinds and shades can also generate incredible savings on energy usage. When it comes to doors, make sure they have a tight fit and use excellent weather stripping. Some new door

frames include a magnetic strip that creates a tighter seal and reduces the amount of air that leaks out. Some of the best core materials for a door include fiberglass and foam. If a door has glass, it will be more energy efficient if double or triple-paned insulating glass is used.



**Roofing and Exterior Paint:** Consider using reflective roofing and lighter exterior paint colors. These two items offer a cooler home by reflecting the sun's rays rather than absorbing them. Roof choices (reflective) and lighter paint colors can create double digit drops in exterior surface temperatures which can result in greater energy savings.



**Building Materials:** Choose to use “earth-friendly” products and building materials whenever possible. Typically, these include:

- Products made with recycled content
- Products that conserve natural resources
- Products that avoid toxic emissions
- Products that are rapidly renewable such as bamboo, cork, and straw



**Water Systems:** Consider installing tankless and “point-of-use” water heating systems. These systems do away with the traditional standing hot water tanks and more efficiently heat water for the home.



**Appliances:** Consider installing “Energy Star” rated appliances. Energy Star is a program backed by the government that identifies products with high energy efficiency. These products often last longer and are more economical to operate than non-Energy Star rated appliances.



*Building an environmentally friendly home cannot only save you money over time, but also helps save the environment.  
But keep in mind, incorporating green features into your home early is critical to its success.*







**PART II**

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**DURING  
CONSTRUCTION**

# Don't Sweat The Small Stuff

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A few years ago, Richard Carlson wrote *Don't Sweat the Small Stuff—and It's All Small Stuff*. In his now famous book, he said, “Often we allow ourselves to get all worked up about things that, upon closer examination, aren't really that big a deal...”

That's not only good advice for life, it's especially important during the homebuilding process. We can assure you, there's going to be a lot of small stuff during the building of your home.

Many people who frequently call their builder's office worrying about minor things make the building process much more difficult, both on the builder and on themselves. A homeowner who worries when a subcontractor is two hours late to the job, or needs to know why a two-by-four has a knot hole in it, or notices some sawdust in a corner of the living room can take the wind out of anyone's sail and cause delays.

Yes, it is important to let your builder know if there are things that truly concern you because your builder wants to provide a complete and pleasurable experience. However, people who view every little thing as a “big deal” and worry about it all (especially those who call their builder daily with their current worry list) are never going to be satisfied.

Jordan was someone who excelled in “sweating the small stuff” during the building of his new home. Throughout the design and contract stage of his new home, Jordan was a delight and seemed to be the perfect candidate for a successful project. The trouble started when his builder mentioned the surveyors were scheduled for Thursday. Even though the survey work didn't need to get done for at least two weeks, the builder wanted to schedule it early so it wouldn't be a critical component in the building schedule.

At 7:00 Thursday morning it was raining buckets and continued to rain all day. Early Friday morning, before the builder's offices opened, Jordan called because he was worried about the surveyor. The builder explained to him because of the full day of rain the previous day, the surveyor was delayed by a day. Jordan was stressed. It was the first of many times throughout the process Jordan was “sweating the small stuff.”



A week later, when the material was dropped at his lot so construction could begin, the delivery truck got stuck due to all the recent rain. The builder's office got another call from Jordan wanting to know all the details about why there were tire ruts in his front yard.

The day the foundation contractor was scheduled he was delayed because of traffic. Another phone call from Jordan. Once the foundation work was prepared, Jordan called to find out what day the inspection would occur. Once inspection passed, Jordan wanted to know what the inspector said and why the inspection card in the permit box was signed off in black marker instead of blue ink.

After the foundation was installed, there was a bag and a half of mortar left over and two wheelbarrows of sand. Jordan called to ask what was going to be done with the leftover material.

It went on and on and on throughout the entire job! Jordan continued to "sweat the small stuff." No amount of meetings and explanations could convince Jordan to let the builder do what he had hired him to do. It was counterproductive to the relationship and impeded the builder's ability to execute the job with excellence. The builder spent more time answering Jordan's questions about the small stuff than he did looking for opportunities to build his home in the most efficient and effective way possible.

It's important to know if you're going to sweat the small stuff (and remember, as Richard Carlson said—it's all small stuff), it usually will not help you get what you really want. At the end of the day, you and your builder both want the same thing: a quality custom home completed on time and within budget. So relax and let your builder worry about the small stuff. In the end you'll be doing yourself a favor.



*Don't sweat the small stuff—let your builder do that.*

## 38 What Language Are You Speaking?

**“I** didn’t buy this home at a scratch-and-dent sale. See that chip in my bathtub? I don’t want it repaired. I want the entire tub torn out.”

Rick clearly was not happy. He obviously had definite expectations and, in his opinion, they weren’t being met.

It’s imperative to have a clear understanding of your expectations if something is scratched or damaged during the construction process. There are over 100,000 components that go into a new, custom home, and in the process of installation, something may inadvertently get scratched or damaged. We recommend you agree in writing with the builder that if he can bring the damaged item to a new, quality standard, it will be mutually acceptable. If you took delivery on a new car and it had a minor scratch, you wouldn’t expect the dealer to replace the entire door or the entire car. Agree on standards with your builder before you begin.

A builder friend of ours was once hired as a mediator to help resolve a conflict between a homeowner and a builder. Instead of going to a jury trial, the builder and homeowner had agreed to binding arbitration. The mediator’s opinion would be binding.

When the mediator arrived at the house, he was introduced to Dr. Jones, the homeowner, who was already dressed for work in his medical scrubs. He was then introduced to Mr. Jenkins, the builder, who arrived dressed for work in his cowboy boots, blue jeans, and a Harley Davidson T-shirt. From the start, the mediator felt they were speaking different languages.

No wonder they had conflict! They came from two different worlds. The doctor was trained in exacting measures. He was trained to do things right the first time—every time. In his world, there were no second chances. A surgeon cannot tell a patient, “Oops, I forgot. I left a scalpel inside your stomach during the operation.” But the builder in cowboy boots and blue jeans was thinking, *What’s the big deal? The wall was put on the wrong side of the line. We can move it in ten minutes.*

Years later (and thousands of dollars in attorney fees later) there was the angry homeowner and the frustrated builder, each one looking for something the other could not provide. The surgeon was looking for a deal, and the builder was looking for the opportunity to say he built for a doctor.

In the end, the mediator provided his written binding judgment, but neither side ended up happy. The sad thing is all of this could have been avoided if they had understood what they didn't know about the other person's point of view. We suggest you and your builder have your expectations defined and clearly written out before any construction begins. Building a new home involves so many components, and there will be things to deal with all along the way. Be clear how your builder will handle any issues.



*Define the expectations in writing before construction begins.*

## Eight Common Arguments Builders Have with Homebuyers *...and How to Avoid Them*

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1. *Homebuyer thinks: You never finished my punch-list.*

At closing, the builder and homeowner assemble a punch-list. You walk through the entire house together to determine if there are any areas or items that still need attention. It's important to have this list in writing and signed by both the homeowner and the builder. If not, the list will never end. Your builder will become frustrated when items are continually added to the list; homeowners will be frustrated because they will feel as though the builder never completed the original list. Get the list in writing and agree that if any additional items arise beyond the initial punch-list, you will create a new, separate list.

2. *Homebuyer thinks: I didn't think adding two more windows to my new home would be an extra cost. After all, I'm paying a lot of money for this home.*

Changes need to be clearly communicated and put in writing to protect both parties and the relationship.

3. *Homebuyer thinks: This is a shoddy builder. I never would've hired him if I had known this. Builder thinks: These homeowners have completely unrealistic expectations. I can never please them.*

Before signing a contract, both the builder and homeowner need to clearly outline their expectations. While this may take a little more time, the effort is well worth it. Pen and paper up front can solve a whole host of misunderstandings and "he said/she said" situations down the line.

4. *Builder thinks: The homebuyer doesn't have sufficient funds to make changes. Homebuyer thinks: The builder didn't communicate changes clearly and in a timely manner.*

Agree in writing regarding any changes that occur after the contract is signed. We also recommend homeowners pay for changes they want at the time of the change, not at the end of a job. This will keep all parties on good terms with each other and the homeowner from having any big financial surprises at the end.

5. *Homebuyer thinks: My builder is not taking my concerns seriously; they are falling on deaf ears.*

Have regularly scheduled meetings with your builder to update the schedule, changes, homebuyer concerns, and items that the builder needs in order to complete the home. That way, you don't have to feel like you are nagging the builder and he doesn't have to feel like construction is being halted every time he turns around.

6. *The homebuyer says he spoke to the subcontractor, and the subcontractor said he could do something for the owner without the builder's knowledge.*

All communication must be communicated through the builder or Construction Manager who is running the job. This will avoid "he said/ she said" misunderstandings.

7. *The homebuyer is speaking to everyone but the builder on matters related to the home or its construction.*

Open and honest communication with the builder or Construction Manager is vital, not just with anyone who will listen. Let the builder do what you hired him to do.

8. *The homebuyer is continually second-guessing the builder and the decisions he is making.*

Take time at the start of the project to interview and gain a high level of trust with the builder and his abilities. Also, speak to previous homebuyers about their homebuilding experience with this builder.



*Save yourself headaches and heartaches by discussing all eight of these issues with your builder and resolve them in advance.*



# How Long Does It Take to Build a New Custom Home?

**T**he amount of time it takes to build a new, custom home depends on the size, complexity, and geographic location (what part of the country you are building in).

The time it takes just to complete the architectural plans depends on how timely you make decisions and your availability to meet with your architect and builder for design meetings.

On average, developing a new set of plans that is ready for permitting can take between four and eight weeks. Add two more months for permitting and additional time to demolish the existing home, if applicable. For a home approximately 3,000 square feet, anticipate about six-to-eight months construction time, provided the market isn't overly busy and there is a timely response from vendors and subcontractors. If you're building a 6,000-square-foot home, anticipate a construction time of 10 to 12 months. For a 10,000-square-foot home, add two months to the design time and 14 to 18 months of construction time.

These estimates assume normal market conditions, which allow for a timely response from vendors and subcontractors.

It's important to understand the realistic timeline you get from your builder and the things that may delay a timely completion process. Beware of a builder who promises an overly idealistic timeline just to get the contract. In the end, you'll be stuck with the reality timeline.



*Ask your builder how long the design, permitting, and building process takes and what would cause delays in the process.*

## Understanding Two Worlds: Yours and Your Builder's

**W**e once talked to a builder friend who built a custom home for a world-class race car driver. The year our friend built the home, his client, Joe, was ranked number one in the world and won the driving circuit for that year.

Early on in the construction process, the builder couldn't understand why it was so unsettling to Joe if things didn't go quite as planned. If a subcontractor showed up a day late, even with a legitimate reason, Joe was upset. The builder began to feel somewhat disconnected with him.

Later that year, Joe gave the builder complimentary tickets to a big race. It was an exciting day with friends, watching the race from noon until 8:00 p.m., filled with the thrill of the race, the crowds, and the cars. After heading home to bed, my friend woke up the next morning and turned the television on to see the latest report on this exciting 24-hour race. At that moment, the apparent disconnect suddenly made sense. After 21 grueling hours of racing, Joe was leading the race by a mere ten seconds! It dawned on him at that moment—in Joe's world, ten seconds was everything. The precision required to be a world-class race car driver was very different than the precision required to build a home. To Joe, having a subcontractor show up a day late was incomprehensible. In this 24-hour race, Joe was part of a three-driver rotation. If, during the driver exchange, one driver bumps his knee on the door and loses four or five seconds in the transition, it can cost him the race.

The exacting standards of the construction industry were just different than the exacting standards of race car driving. Until that moment, the builder didn't understand Joe's world.

Before you enter into an agreement with your homebuilder, the two of you should seek to understand each other's worlds. If the builder had done this with Joe, it would have saved unnecessary turmoil in the building process.



*Let your builder know about your world, and  
try to understand his.*

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## Should I Be Afraid of a Change Order?

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No you shouldn't be afraid of a Change Order—if it's *done right*. What is a Change Order? Basically, it's a document that's used during the homebuilding process to let the builder know what you want to change from the original design specifications. For example, you may ask for a change because you want a different selection; you've changed your mind about countertops. Originally you wanted tile, but now you want granite. You can also use a Change Order to provide for a more functional use of space.

Your builder may also initiate a Change Order because material is no longer available, shipment delays have occurred, or a new and better product has become available.

The change listed on the Change Order must be described clearly with a fully researched price. Your signature will be required. A change may or may not affect the contract price of your home or the delivery date of the home. But, here's what really matters: You need to know! A Change Order does that.

So even if you initiate a Change Order for upgraded granite countertops and you agree to pay the extra cost, you still need to understand that shipping delays may bump the construction schedule back three weeks. Changes are possible, but they have consequences. The positive thing about a Change Order is everything is written down, you sign it, we sign it, and we're back in business. Nobody is going to hear "but I thought you said..." Changes are clear and documented.

Some homeowners may be afraid of a Change Order because most builders don't process them well. Can you imagine the chaos that would occur if we just proceeded with phoned-in instructions? You don't want to have a conversation with your builder where you both think, "but I'm sure he said..."

Whether the Change Order is a large or small item, it always creates a wrinkle in the construction process. Some section of work has to stop until we know if we need to change direction. We do research, make phone calls, and solicit new bids.

A Change Order may be due to a product being discontinued or there may be extensive delays in delivery of the original selection. Occasionally there are shortages of material and the builder may propose using another material in order to keep on schedule. This action would prompt a Change Order for you to review and sign. Remember, the Change Order protects you—it's *your* home and you remain in the driver's seat.



*Minimize the number of Change Orders by hiring a builder who communicates clearly upfront, before you start building. When a Change Order occurs, make certain a paper trail follows for your protection and the protection of your relationship.*

## Why Do I Have to Pay a Builder's Margin on a Change Order?

**H**omebuilders often hear, “Don’t builders make enough profit so they can just include the changes as we go along? After all, we’re building a custom home and we’re entitled to make changes. Otherwise, we would’ve bought a home from a production builder.”

While this seems like a valid point from a buyer’s perspective, most people would be surprised to find out builders don’t make as much money as they think. We always encourage homeowners to work diligently on the front end (before construction begins) so they can keep Change Orders to a minimum. Changes can happen during the construction of a custom home, but you need to be aware of how the process works, the consequences of a change (additional time and cost), and understand the builder’s margin.

Custom homes are built with as little as four changes and some with more than 200 changes. It’s difficult to gauge how many changes a homeowner may make after signing the contract. Most people start out saying they love their plans and they love everything they’ve picked out. Yet once construction starts, we may receive nine phone calls requesting 20 changes during the first week alone!

Changes involve a lot of energy and a lot of the builder’s team’s time. In order to effectively process and execute changes to a custom home, a builder needs to be fairly compensated. The last thing you want is to have your builder wincing when he looks at his mobile phone when you call. We’re not saying a builder should be able to take a trip to Hawaii because of a single Change Order fee he earns while building your home, but a fair and equitable fee encourages your builder to work on your behalf for an excellent result is vital to the homebuilding process.

We don’t encourage or discourage our homeowners to make changes. Being available to give professional counsel when questions about changes occur is our duty and responsibility. We’re motivated to give our homeowners a great experience.

We once built a home for a corporate executive. John was a great client and a great guy. Our contract agreement outlined he would provide his own refrigerator. Near the end of construction, John asked if he could use my supplier to purchase the refrigerator at my cost.



Since we had a strong relationship and my focus was on serving, we allowed him to select the refrigerator. We had it delivered and only requested reimbursement of the cost of the appliance, without charging him a builder's margin.

In our original agreement, one of the items this homeowner valued was an extended warranty, which we provided. Approximately fourteen months after John moved into his new home, the seal on the refrigerator failed and water leaked onto the hardwood floor, causing the floor to warp. When we contacted the appliance company, they indicated the refrigerator was out of warranty and, since the home was still in warranty (because of the extended warranty period we had provided), we had an obvious problem.

Not only did we have to pay to repair their refrigerator, but we also had to pay for repairing the kitchen floor and sanding and finishing the entire floor in his home because the new finish didn't match the original finish in the rest of the home.

We learned a valuable lesson from that experience. If changes occur that deviate from the original contract agreement, then a builder's margin must be charged to compensate fairly for the time, energy, and risk associated with items that may need to be addressed at a later date.



*Agree in advance what the builder's margin will be on Change Orders.  
Decide what you want before construction begins, and if a change occurs,  
you'll have a mechanism that provides for a win/win situation.*

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## How To Make Your Builder Love You

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**W**e've built a lot of homes, and we've worked with some really great people and some very difficult people. Our most successful projects have been the result of developing strong relationships.

Here are some tips on how to have a successful construction project and make your builder love you:



**Tell the Builder What He's Doing Right.** One particular homeowner found something good to say every time we spoke. Yes—every time. Nick didn't do this in a patronizing way; he gave me and my team genuine compliments. He looked for and commented on the positive aspects in our relationship and the services we were providing. Nick also shared his concerns with me. I would do anything for Nick and still would to this very day, more than five years after completing his home.



**Clearly Communicate Problem Areas.** If something is bothering you about your new home construction process, clearly communicate what concerns you without anger or a condescending attitude. Give your builder an opportunity to make it right. A demonstration of a great builder is how well he handles problems.



**Clearly Communicate Your Expectations.** Be forthright and share with your builder what you really value and tell him what is important to you. If you're clear, you'll probably get what you want.



**Let Your Builder Do His Job.** We've been hired by homeowners in the past who seem to be agreeable, only to find out later they wanted to control the entire process and hover over us. Behavior like that makes our entire team reluctant to make a decision for them.



**Think Win/Win.** Builders are regular people just like your next door neighbors. They generally don't make as much money as people imagine, and most builders really want to do a good job. Work toward amicable solutions.



**Remember to Say "Thank You"** Builders are people too, and everyone likes to hear a thank you for a job well done.



*Follow these helpful hints and your builder will love you.*

## Why You Shouldn't Use Friends as Subcontractors

**“I** have a friend (or a brother-in-law) who is willing to do the tile work in my new home for a discounted rate. I’d like to use him and save some money.”

Most quality custom home builders have learned the hard way it’s not a good idea to allow homeowners to use friends or relatives for subcontracting work on the house during construction. Frequently it turns out to be a disaster for both the builder and the homeowner.

Here’s one example of why: Scott wanted to use his friend’s custom cabinetry shop. Scott knew the friend well and had spoken to another friend who was pleased with the cabinetry from this particular company. The builder didn’t want to allow it, but also didn’t want to anger his client so he agreed to let Scott use his friend’s cabinet company.

The builder was promised the cabinet work would be completed by a specified date, but the cabinets were not installed on time. In fact they were delayed several times and eventually caused a two-month delay in the construction schedule. In the end, Scott and his family moved in without any cabinet doors on the face of the cabinetry in their entire home and then waited an additional two months to have their job complete. That didn’t even take into account the lost momentum or additional cost in interest carry, overhead, and other expenses as a result of the delay from the cabinet shop.

When you hire a builder, we strongly encourage you to allow your builder to do what he does best. When you visit a dentist, you expect him or her to be trained and equipped to do the job efficiently and effectively. You wouldn’t think of bringing your own tools or materials, handing them to your dentist, and asking if you could save money on a filling because your neighbor or friend is in the dental supply business. You wouldn’t take a steak to a restaurant and ask them to cook it for you so you could save a few dollars on the meal.

The principle is no different in homebuilding. If you use friends or your own business contacts, it will disrupt the smooth flow of work

and communication of what an experienced builder does best. It could also produce conflict and put strain on your personal relationships. Trust your builder. He has vendors, subcontractors, and a labor force already in place that he works with on a regular basis.



*Hire a competent builder to do the building; save your  
friends for the housewarming party.*



# 46 The Top Eleven Mistakes Made by Homeowners

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## **1. Purchasing a lot that is “affordable.”**

You could build a home with a great design 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.

**Solution:** Remember: location, location, location. Purchase the most expensive, valuable lot you can manage, even if it means waiting on some finishes or amenities in your home (see chapter 6 for more on this topic).

## **2. Trying to build a custom home without a professional builder.**

Building a custom home is more complex than most people realize. It takes skilled professionals years to learn the business and even then changes in the industry, materials, and codes make it difficult to keep up.

**Solution:** Find a competent builder you can trust. Negotiate a reasonable fee for his services and hire him (see chapter 4).

## **3. Purchasing a ready-made plan thinking it will save you money.**

Building someone else’s design or dream (especially one that was designed for someone in another city and state) may not be the wisest choice.

**Solution:** Purchase a ready-made plan only if your lot is standard and you don’t need to modify the plan (see chapter 12).

## **4. Choosing a builder primarily because of price.**

The expression “you get what you pay for” applies to the homebuilding process. If you’ve heard horror stories about people’s experience with their builder, it usually can be attributed to someone trying to get a deal.

**Solution:** Your home is a major investment. Make an informed, purposeful, thoughtful decision and don’t be lured by the lowest bid (see chapter 17).

5. **Biting off more than you can chew. In an appreciating market, the rise in value can cover this mistake, but in a flat or declining market, it can be disastrous.**

**Solution:** Know what you can afford and stick to your budget (see chapter 24).

6. **Hiring a builder when your gut instinct tells you not to.**

**Solution:** After careful research and comparing builders, go with your instinct, not the discounted price (see chapters 4 and 28).

7. **Making choices for your home that only you love but everyone else hates.**

**Solution:** Get good counsel from your builder, architect, interior designer, and real estate professional before you make your decisions (see chapter 14).

8. **Expecting workers to be on your job every day from 7:00 a.m. until 4:00 p.m.**

**Solution:** Recognize some days no work is scheduled at all because inspections may be taking place or rain has caused a change in the schedule (see chapter 36).

9. **Underestimating the importance of making all selections before construction.**

**Solution:** Make all selections prior to construction and enjoy the building process (see chapter 22).

## 10. Homeowners giving direction to subcontractors on the job.

**Solution:** Communicate only with the Construction Manager or builder. The Construction Manager is the only person on the job who has all the information related to your project. Subcontractors have only one piece of the puzzle. You can visit the job site during scheduled appointments with the Construction Manager who can answer your questions and explain what you will be seeing.

## 11. Not understanding the “Change Order” process.

**Solution:** Discuss the builder’s Change Order process with him and be sure you are clear with how it works. Cooperating fully with this process will go a long way toward your enjoyment of the whole project (see chapter 41).



*Avoid these common mistakes and you'll be  
way ahead of the game.*

## Should I Hire an Independent Building Inspector?

**S**ometimes homeowners choose to hire an independent building inspector during the building process of their new home, but that decision can be a double-edged sword.

On one hand, if the building inspector's intent is to genuinely help the process by effectively communicating what he observes, it can really aid in the process of completing a new home. On the other hand, a building inspector who tries to justify his fee by searching for insignificant things can add confusion and even create an adversarial relationship between the builder and the homeowner. When this happens, nobody wins.

We don't discourage our homeowners from hiring an independent building inspector. We think it's important for them to be fully comfortable with the building process. After all, they are investing a lot of money in their new home. If the homeowners can clearly define in positive terms what they want the inspector to do, the inspector will know we're not in an adversarial position. We will all be on the same page, working together to create a beautiful home.

Much of what is noted by a private building inspector is already being handled by the builder or the required local, county, and municipal building inspectors at code inspections. Hiring the private building inspector may be additional cost without any real value added to the homeowner.

Homeowners who live out of town, out of state, or even out of country from their homebuilding site may want to hire an inspector to watch over the construction process. This is a different assignment. To achieve the desired results, it will be important to choose a building inspector who understands the difference and does not try to create an adversarial situation. A good choice here can make or break a situation. We look for people who understand the "we're-all-on-the-same-team" mentality (and a lot of people don't). We're all on the same side; we all want the same thing. We all want a beautiful home, built to the highest standards. Our goals are not opposite yours or the inspector's. Understanding this is crucial. Be sure you are not hiring someone who feels the need to justify his fee.

For any homeowner, if you are feeling uneasy about your builder, then you should question why you are hiring that builder in the first place.



*If you hire an independent inspector, make certain he is helping, not hindering, the building process.*



# How To Maximize Your Valuable Investment

**Y**ou know how you feel when you drive a new car out of the showroom? You don't want any dust, dirt, or stains to ruin the beautiful seats on the inside or paint on the outside. You keep the interior clean and regularly wash and wax the exterior to keep it spotless. A little preventative care can go a long way in preserving the life of your new car. The car manual provides a maintenance plan that highlights key times to perform routine care to keep the engine running smoothly and the rest of the car performing at its peak.

Do homebuilders provide a similar maintenance plan to new homeowners letting them know what regular care should be given to their new home? Not usually. But they probably should. After all, a new home is one of the biggest investments most people make during their lifetime. So it's wise to take care of it from the start. A little planning and elbow grease will go a long way toward keeping your home clean, maintaining its value, and avoiding costly repairs later on. If you're not handy around the house, you might want to consider hiring a professional to tend to things that need cleaning and maintaining. This will be money well spent.

Here is a home maintenance plan with some suggestions for maximizing enjoyment of your new home and maintaining its value:



**Regular Washing:** Just like a new car, your new custom home needs a regular washing too. Try to pressure wash the exterior at least twice a year; four times a year is best. The exterior paint, stucco, brick, siding, or other components will not only maintain a better look but will last longer as well.



**Clean the Gutters and Filters:** Have your home's gutters cleaned at least twice a year to avoid leaf buildup. Also be sure to change (or clean if they are reusable) your air conditioner's filter every three months. A clean filter helps your unit run more smoothly and saves you money on your electric bill. A clean filter also increases the life of your air conditioning unit. Nothing is more frustrating (not to mention costly) than having to install a new air conditioning unit in the middle of the summer.



**Replace with Fresh Batteries:** Daylight-savings time is a great reminder for this step. In the fall and spring, when you adjust your clocks, replace the batteries in your smoke alarms and carbon monoxide sensors. As an extra note, be sure to check your irrigation clock every few months to ensure proper operation.



**Avoid Abrasive Cleaners on Hardwood:** If you have hardwood floors, it's important to keep them clean in order to extend their beauty and life. However, be careful to never use wax or harsh cleaners on your hardwood floors. The chemicals could permanently damage the flooring and result in a costly fix.



**Garage Door Safety Reminders:** Two important things to keep in mind if you have a garage door opener. First, never remove the garage door obstruction sensor. This safety feature is designed to prevent the overhead door from coming down on a child or animal and injuring or killing them. Check the sensor every few months to make sure it is working properly. Second, it's important to never try any type of garage door spring maintenance or adjustments by yourself. If the tightly coiled spring somehow comes off, it can cause serious injury. Always hire a trained installer or maintenance professional to assist you.



**Check and Reseal:** Check the exterior of your home twice a year for any signs of expansion or contraction. Cracks may allow water to seep in causing extensive damage to the interior walls. Caulk cracks and seal wood to prevent future problems.

While this maintenance plan is not comprehensive, it does include some of the most important items every homeowner should do to protect their investment. Your home may have some additional needs to consider.

Why not take this maintenance plan and find a creative way to remind yourself to do these activities. Perhaps you could write reminders on your wall calendar, schedule them into your Day-Timer, or set up reminders that will pop up on your computer. However you decide to do it, these regular maintenance items will maximize your home's value and maintain its beauty for years to come.



*Keep up with routine maintenance and cleaning around your house or consider hiring professionals to protect your new home investment.*

## 49 What Can I Expect After I Move In?

**I**magine it's been a few months since your custom-built home was completed. You've moved the furniture in, decorated your favorite spots with mementos and other personal belongings, and even hosted a few housewarming and dinner parties. Your home is the envy of the neighborhood and your friends marvel at the attention to detail and excellent craftsmanship. But there are no perfect homes, and a fact of new home construction involves the foundation settling and minor cracks appearing. Many of the cracks appear because your home is adjusting to temperature and humidity changes—builders can't build your home under factory controlled conditions. So don't panic when minor cracks appear. This is completely normal!

To help ease your fears, here's a list of common situations that occur in new homes. Builders are often asked these questions (and plenty more) from panic-stricken homeowners who fear their perfect home is now laden with problems. Remember, thousands of components were used to put together your home over an extended period of time, so settling and minor adjustments should be expected. A good builder will address your concerns promptly and work with you.

So what can you expect?



**Crown Molding Cracking:** This is very common and there's no way around it. Expect to find minor cracking and separation in your crown molding, especially in two-story homes. Settling, heat expansion, and contraction will occur as your home acclimates to the new temperature conditions inside from running your air conditioner and heating systems. This does not mean there is anything structurally wrong with your home. Cracks in your crown molding actually look worse than they really are. A qualified handyman can caulk these minor cracks within minutes, and after the repair you shouldn't be able to tell there was ever a crack at all.



**Grout Cracking:** Another common spot to find minor cracking is in the tub and shower area. You may notice cracks appearing along the grout lines between tiles or in the corners of the tub or shower.

Again, a handyman with the appropriate sealant can take care of this. It's a good idea, however, to add the sealant quickly to prevent moisture from seeping behind the tile and causing further damage.



**Hardwood Expansion and Contraction:** If you have hardwood floors professionally installed in your home, you can expect to find some minor cracks appearing over time. The hardwood acclimates to the temperature of your home (again due to cool air and heat) after installation and the wood planks will expand and contract. This is normal! It's best to allow the wood to expand and contract for at least six months so it completely settles before making any repairs. A professional installer or handyman can putty in the minor cracks.



**Door Adjustments:** Even doors and door frames will need time to adjust to the temperature after a new home is finished. The doors, locks, door handles, and deadbolts may need some minor adjustment. This is completely normal.



**Cracks in the Sidewalk, Driveway and Garage:** It is not uncommon for minor cracking to occur along concrete sidewalks, driveways, and even inside the garage. Expansion and contraction also happens here because of the varying temperature conditions the concrete is exposed to. As long as you don't notice a material difference in the height of the concrete on either side of the crack, don't worry. These cracks are normal. It does not mean there is anything wrong with the concrete foundation. Typically cracks in concrete are not mended unless there is a significant height difference between the concrete on either side.



**Receptacle Not Working:** If a receptacle (wall plug) in the bathroom, kitchen, garage, or in the home's exterior mysteriously stops working, don't be alarmed. It may just be a tripped circuit. The current electrical code requires builders to install GFCI (ground fault circuit interrupter) and AFCI (arc fault circuit interrupter) outlets in some areas of your home as an added safety mechanism to prevent accidental electrocution. GFCI receptacles are designed to shut down when they sense an imbalance between the outgoing and incoming current, as may happen in a moisture situation such as dropping an electrical appliance in your kitchen sink. AFCI receptacles are designed



to shut down when they identify damaged, overheated or stressed electrical wiring or devices. An example would include sparks within the circuit, such as a faulty motor such as in a hair dryer, vacuum, blender or other appliance, or frayed or cracked wiring, when a nail or screw damages a wire behind a wall or when outlets or circuits are overburdened. Since four or five receptacles can be located on one circuit, it may be necessary to reset GFCI and AFCI receptacles or other circuit breakers after the cause of the fault has been removed.

This is by no means a complete list of situations which may occur after you move into your home. If you have a more specific question or situation, contact your builder to determine the best approach to fix the problem.



*Some settling is likely to happen after you move in to your home, and some cracks may appear. Done panic. The fix is usually easy, and it doesn't mean you have a defective house.*

“Each morning when I wake up,  
I feel like I live in a home from  
Better Homes and Gardens.”

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that way too!



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*Maver, Wat & Terri*





A large, two-story Victorian-style house with a prominent front porch, surrounded by trees and a green lawn. The house features dark siding, light-colored trim, and a gabled roof with decorative bargeboards. The porch has white columns and railings. The house is set on a green lawn with a concrete sidewalk in the foreground. Bare trees are visible on the left, and leafy trees are on the right.

# **PART III**

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## **HELPFUL CHECK LISTS**

## Check List #1

### What to Do Before You Hire a Builder

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**T**his book would not be complete without a “Helpful Checklists” section. Each checklist is designed to make it easy for you to keep on track throughout the entire homebuilding process. You may want to review the lists and check off the items as you go through each phase. It can be helpful to take them with you to meetings with your builder or to the building site.

Your builder may have his own checklists for various stages of the design and build process. While they may differ in some details, they will most likely be quite similar.

These checklists have been helpful and valuable to our homeowners and to our company. They allow us to verify items that are significant in the design and construction process and make the process more efficient.

The following checklists are not exhaustive; they simply highlight some of the “must do’s” while your new home is being built. We hope these tools will help you in your homebuilding experience.

- ☐ 1. Look at some of the builder’s homes currently under construction.
- ☐ 2. Have the builder provide a list of previous projects.
- ☐ 3. Call two or three previous homeowners this builder has worked for and ask them key questions (see Check List #3).
- ☐ 4. Become comfortable with the contract documents before signing.
- ☐ 5. Decide on your homebuilding budget.



## Check List #2

### Top Questions to Ask a Potential Builder

- ☐ 1. Why should I hire you?
- ☐ 2. What is your fee structure?
- ☐ 3. How do your fees compare to other builders' fees?
- ☐ 4. What are your weaknesses?
- ☐ 5. What makes you different from other builders in this market?
- ☐ 6. What type of warranty do you provide, and what is your philosophy on warranty?
- ☐ 7. What was your worst building experience with a homeowner, and what did you learn from it?
- ☐ 8. How long have you been building?
- ☐ 9. What is your education?
- ☐ 10. How many custom homes have you built?
- ☐ 11. How many homes will you have under construction at the time my home will be built?
- ☐ 12. How many homes do you build per year?
- ☐ 13. How do you handle changes?
- ☐ 14. How many Change Orders would you consider average in building a home?
- ☐ 15. Do you supervise the building yourself, or do you have a site supervisor?
- ☐ 16. Can I meet the person who will be running my job?
- ☐ 17. How often do you come to the job?

- ☐ 18. What work do you do with your own crews, and what work do you subcontract out?
- ☐ 19. Do you pass the cost of your allowance items directly to your homebuyers, or do you charge a markup on allowance items?
- ☐ 20. Can you provide us with a bank reference?
- ☐ 21. Can you provide us with a copy of your insurance certificate?

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## Check List #3

### Top Questions to Ask Your Builder's Previous Homebuyers

- ☐ 1. Why did you select this builder?
- ☐ 2. Did your builder demonstrate character and integrity during the time you knew him?
- ☐ 3. Did you feel your builder had your best interests in mind?
- ☐ 4. How well did your builder communicate Change Orders to you?
- ☐ 5. Did your builder treat you in a respectful, honorable way, and did he communicate clearly with you?
- ☐ 6. What was the worst thing that happened during your building process?
- ☐ 7. What would you do differently if you had to build your home all over again?
- ☐ 8. Was your home built on time?
- ☐ 9. Was your home completed on budget?
- ☐ 10. Was there ever a time you felt your builder was being untruthful?
- ☐ 11. Did your builder exceed your expectations?
- ☐ 12. What were your builder's best qualities?
- ☐ 13. What were some of your builder's limitations and weaknesses?
- ☐ 14. Would you use this builder again? (The most important question of all!)

## Check List #4 Before You Begin Construction

**R**eview the following items with your builder at the job site before construction begins. This is not intended to be an exhaustive list; it includes the main things to check before you begin. Ask your builder to explain any items not clear to you.

- ☐ 1. Verify with your builder the height of the finished floor and all porches.
- ☐ 2. Verify with your builder the type of material used on all porches.
- ☐ 3. Verify with your builder all floor outlet locations.
- ☐ 4. Verify with your builder any slab/recessed areas for hardwood application.
- ☐ 5. Verify with your builder all hose bib locations.
- ☐ 6. Verify with your builder electrical meter locations.
- ☐ 7. Verify with your builder layout and location of driveway and sidewalks.
- ☐ 8. Verify with your builder well and septic locations (if applicable).
- ☐ 9. Verify with your builder pool equipment location (if applicable).
- ☐ 10. Verify air conditioning locations. Is the unit too close to the master bedroom window?
- ☐ 11. Verify lot drainage conditions are correct.

## Check List #5 Before Your Builder Hangs Drywall

**R**eview the following conditions at the job site with your builder prior to hanging drywall:

- ☐ 1. Spot check room dimensions with your builder.
- ☐ 2. Verify with your builder all closets are in place. These are easily overlooked by the framing contractor.
- ☐ 3. Review all door swings with your builder with electrical switch placement in mind.
- ☐ 4. Verify with your builder location and quantity of all electrical outlets, switches, cable TV, computer, etc.
- ☐ 5. Verify with your builder placement of breakfast nook ceiling fixture.
- ☐ 6. Verify any additional electrical outlet needs with your builder such as sockets, switch lights or holiday lights, receptacles, or convenient overnight mobile phone charging locations.
- ☐ 7. Review with your builder placement of master shower valves for easy reach to avoid scalding.
- ☐ 8. Verify cabinet layout and sink locations with your builder.



## Check List #6

### 3 Weeks Prior to Closing

- ☐ 1. Call your insurance agent to put homeowner's insurance in effect.
- ☐ 2. Call your builder to verify the tentative walk-through date.
- ☐ 3. Call electric company to schedule service in your name.
- ☐ 4. Call telephone company to activate telephone service.
- ☐ 5. Call cable company for TV and internet hook-up.
- ☐ 6. Call water municipality to schedule water in your name.
- ☐ 7. Call gas company to schedule gas service in your name.
- ☐ 8. Call pool service company for pool cleaning contract (if applicable).
- ☐ 9. Call lawn service company to put contract in place.

## Check List #7

### The No-Sweat List for Closing and Final Walk-Through

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**T**his checklist will guide you through the process of what will happen on that long-awaited day—your closing day! After many months, it is finally time to hand you the keys. One of the important closing day events will be for your builder to walk through the entire home with you. This is an opportunity for the builder to instruct you about certain aspects of your new home and to point out locations with critical information.

A good builder will have his own checklist, but this list will let you know what to expect, and you can check off your own items as you walk through your beautiful, new, custom home together. It's also a great time to ask any questions.

- ☐ 1. Verify that keys work in every lock throughout the entire home.
- ☐ 2. Obtain garage door openers.
- ☐ 3. Obtain all extended warranties.
- ☐ 4. Obtain owner's manuals for all appliances.
- ☐ 5. Run the dishwasher through a cycle to be sure it works and there are no leaks or other problems.
- ☐ 6. Verify garbage disposal operation.
- ☐ 7. Verify gas hook-up to all appliances.
- ☐ 8. Verify hot water heater and recirculating pump operation.
- ☐ 9. Learn location of all air conditioning filters.
- ☐ 10. Locate emergency water shut-off valve.
- ☐ 11. Obtain subcontractor emergency phone numbers and information.
- ☐ 12. Obtain all final waiver of lien notices.

- ☐ 13. Obtain the Certificate of Occupancy.
- ☐ 14. Obtain final survey.
- ☐ 15. Obtain final Change Orders calculations.
- ☐ 16. Obtain an updated list of all colors and finish selections.
- ☐ 17. Verify pool is in working order (if applicable).
- ☐ 18. Verify gas grill is working (if applicable).
- ☐ 19. Obtain home warranty.
- ☐ 20. Obtain termite certificate (if applicable).
- ☐ 21. Schedule a two-week walk-through follow-up date with your builder.

# The Savvy Homeowner's Glossary

## 45 Indispensable Words Every Homeowner Should Know and Understand

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1. **Adjustable Rate Mortgage (ARM):** A mortgage interest rate that changes based on an index over time.
2. **Agreement of Sale:** A sale contract.
3. **Amortization Schedule:** A schedule showing how the monthly mortgage payment is applied to the principal, interest, and the current mortgage balance.
4. **Appraisal:** An evaluation of homes within the surrounding area to determine the market value of the property.
5. **Appreciation:** An increase in the value of property.
6. **Borrower:** The person or persons responsible for the loan, also called the mortgagor.
7. **Cash Reserve:** The cash balance a borrower has left after closing, available for the first one or two mortgage payments.
8. **Certificate of Occupancy:** A certificate issued by a governing agency stating the building has been approved for occupancy.
9. **Closing:** Finalizing the purchase and financing documents and the disbursement of funds to all parties.
10. **Closing Costs:** All the costs associated with the loan and the purchase, not including the actual cost of the property.
11. **Commitment Letter:** Formal notification from a lender stating the terms of the loan.
12. **Contingency:** A specific condition to an agreement or contract.

- 13. Credit Report:** A report of credit history used to determine an individual's credit worthiness, usually provided by a credit bureau.
- 14. Debt-to-Income Ratio:** The percentage of one's earnings used to qualify for a mortgage.
- 15. Earnest Money:** A deposit given to a seller by a prospective buyer.
- 16. Easement:** A right-of-way given to others to access over and across the property.
- 17. Equity:** The difference between the market value and the outstanding mortgage balance.
- 18. Flood Insurance:** Insurance for properties in designated flood areas by the government.
- 19. Hazard Insurance:** Homeowner's insurance.
- 20. Homeowner's Warranty:** Insurance that covers repairs for the home for a specified period of time.
- 21. Lien:** A legal claim against a property that must be paid when the property is sold.
- 22. Loan-to-Value Ratio (LTV):** The ratio between the mortgage amount and the value of the property. For example, if the mortgage is \$900,000 and the value of the home is \$1,000,000 the LTV is  $\$900,000 / \$1,000,000$  or 90%.
- 23. Lock-in Rate:** A written guarantee by lender for a specific rate of interest.
- 24. Mortgage Broker:** A company that matches borrowers with lenders for a fee.
- 25. Mortgage, Fixed Rate:** A mortgage in which the rate of interest is fixed for the entire term of the loan.
- 26. Mortgage Insurance:** Insurance that is provided by independent insurers which protects the lender in the event of a mortgage default.



- 27. Mortgagee:** The lender.
- 28. Mortgagor:** The borrower.
- 29. Origination Fee:** The fee paid to a lender for processing a loan, often referred to as points, representing the fee as a percentage of the loan amount.
- 30. Owner Financing:** When the seller of the property provides all or part of the financing.
- 31. Plot Plan/Site Survey:** A map prepared by a licensed surveyor depicting the exact placement of a house on a lot.
- 32. Points:** One-time charge by a lender. One point is one percent of the mortgage amount.
- 33. Prepayment Penalty:** Fees charged to a borrower for paying off a loan prior to the maturity date.
- 34. Pre-Qualification:** Pre-determining a buyer's financial borrowing power prior to a purchase. Pre-qualifying does not guarantee loan approval.
- 35. Principal:** The total loan amount borrowed or the total unpaid balance of the loan.
- 36. Radon:** A radioactive gas which, if found in sufficient levels, can cause health problems.
- 37. Refinancing:** Paying off an existing loan with a new loan on the same property.
- 38. Settlement Sheet:** The costs payable at closing to determine the seller's net proceeds from the sale and the buyer's required net payment.
- 39. Survey:** A drawing showing the legal boundaries of the property.
- 40. Title:** A legal document establishing the right of ownership.
- 41. Title Company:** A company that specializes in insuring the title to the property.

- 42. Title Insurance:** Insurance that protects the buyer and the lender against losses arising from disputes over ownership of the property.
- 43. Title Search:** A search of legal records to ensure the seller is the legal owner of the property and any liens or claims against the property are identified.
- 44. Transfer Tax:** State or local taxes due when title to property transfers from one owner to the other.
- 45. Underwriting:** The process of evaluating a loan application to determine whether or not it's acceptable to the lender.

# What They've Been Saying

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Over the years we've been blessed by our clients, Realtors, admirers, business associates and others with positive accolades about our company, staff and finished homes. Here's a sampling of the kind words we've heard...



"It was a pleasure to work with Rite-Way."



"They listened to what we had to say, then designed and built our dream home."



"Each morning when I wake up, I feel like I live in a home from Better Homes and Gardens!"



"Their homes are so much more than subdivision homes. Go see how they are different."



"We would definitely build with Rite-Way again."



"They have integrity, design and inspiration."



"Rite-Way over delivers on quality and value."



"Rite-Way came highly recommended by our Realtor and others we spoke with."



"Rite-Way gave us the opportunity to design our home exactly how we wanted it."



"They have completed dozens and dozens of homes in Glen Ellyn alone."



“After being in our home for 20 years, who would have thought you and your dream team could design and build such a beautiful addition.”



“Their quality is second to none.”



“It’s magnificent! We absolutely love our new home!”



“Beautiful custom homes, top quality construction and passion about making their customers happy!”



“Simply the best.”



“Quality, Integrity and Value!”



“As a Realtor, I love to list homes that were built by Rite-Way, as they represent value years after they were built.”



“Rite-Way’s experience and expertise made building our new home incredibly simple!”



“Absolutely fabulous craftsmanship! Thank you!”



“Marv, Walt and Terri are great to work with. They are staples in town. 3 years in our home and we still have a great line of communication with them.”

## Additional Contacts

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**F**or a professional evaluation of your existing home, to uncover insights on how you can quickly sell your home at or above market value, to begin a search for a new home, tour a listed home for sale, or explore a career as a Realtor, please contact:



**Deb Ritter**

Broker Associate

Keller Williams Premier Properties

45 South Park Boulevard, Ste. 300

Glen Ellyn, IL 60137

Phone: (630) 918-4476

Email: [Deb@Ritter-Properties.com](mailto:Deb@Ritter-Properties.com)

Website: [www.Ritter-Properties.com](http://www.Ritter-Properties.com)

Facebook: [www.facebook.com/RealtorDebRitter](https://www.facebook.com/RealtorDebRitter)

For professional design advice regarding decorating your home, please contact:



**Laura Show**

Designer

LPT Decorating

Phone: (630) 961-3411

Facebook: [www.facebook.com/LPTDecorating](https://www.facebook.com/LPTDecorating)

For custom, handmade Amish cabinets for your new home, addition or renovation:



**Simply Amish Cabinets**

(A sister company of Rite-Way Custom Homes)

540 Duane Street, 2<sup>nd</sup> Floor

Glen Ellyn, IL 60137

Phone: (630) 790-8144

Facebook: [www.Facebook.com/SimplyAmishCabinets](https://www.Facebook.com/SimplyAmishCabinets)

# Free Bonus Offer

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**T**hank you for reading this book.

We hope it has been helpful to you. We invite you to send comments to us at [CustomHome@RiteWayCustomHomes.com](mailto:CustomHome@RiteWayCustomHomes.com). Your comments, feedback, and suggestions are all welcome and will be used for the next edition of this book. Please tell us:



What was especially helpful to you?



What information would you like to see included in the next edition?



Send us your own stories of success and struggles.

In return for your valuable suggestions, we will send you an excerpt from our first book, “What to Expect When Building a Custom Home” for FREE. In this free bonus, you’ll learn the insider building secrets we give to our top clients who are building quality custom homes.



# A Final Thought

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As we mentioned in the introduction Walt, Terri and I have been building homes much of our adult lives. We've seen the value beautiful homes provide families. For us, a house is more than simply bricks and mortar. More than a beautiful structure with bedrooms, bathrooms, kitchens and areas for play. There always should be intimate living spaces which speak to the very heart of who you are. We believe a residential structure shouldn't be just a *house* – it should be a *home*.

Terri and Walt nominated me to write this closing section. They didn't provide editorial direction, so I decided to share a bit about how my home has become one of the central points for my family...

My wife Deb and I designed the floorplan of our home while on vacation in Door County, WI in the summer of 1998. We hadn't planned our vacation to turn out this way, but a few weeks earlier while I was out of the country on business, Deb purchased three parcels of vacant land we had admired and dreamed about for years. The parcels unexpectedly came on the market, so Deb swooped in and bought them (*without me!*) lock, stock, and barrel.

The following week we found ourselves on vacation in Door County. After spending our days exploring the costal shores of Lake Michigan and the waters of Green Bay, I dedicated several evenings to sketch the floorplans for our new home. The design was driven by a "T" shaped open stairway placed on a 45 degree angle at the end of a beautiful, wide open front foyer. The stair placement created interesting angles for the adjacent rooms and was open from the second floor loft all the way to the lower level. Twenty-two skylights, four fireplaces, a walk out lower level, and big windows in every room made it seem like everything which was once outside, is now inside our home! Before we left Door County, we took pictures of the front elevations of several beautiful lake homes. When we returned home, we met with Rite-Way's architect who took our concept sketches, improved them, and made them structural. He took parts of the exteriors from three of the homes we had photographed to create the exterior design for our home. After working through the permit process, our Rite-Way team dug the basement just before Christmas and poured the concrete foundations the first week of January. We moved into our new home about a year later! It is safe to say, our

home is exactly what we had hoped and dreamed of down to each and every detail. It has become the canvas where our family has painted the pictures and stories of our lives; the place we call home.

Early on, our second floor loft became the staging area for homework and bedtime stories before Brian and Carrie headed to their rooms for the night. Carrie has always been a reader. She studied hard and loved to curl up in her room with a good book. Brian mastered the electric guitar. Our secret third floor getaway quickly became center stage, while Brian played his favorite tunes from the Beatles, Neil Young, and James Taylor with occasional rock riffs from Led Zeppelin and others, pounding vibrations throughout our home that may have only last been felt at Woodstock in the summer of 1969.

We fondly remember the years our kids were growing up; seeing them snuggle with their dogs Blue, Annie and Cooper, and for eight years, with our guinea pig Midnight. We relish the angel food cakes topped with M&M's over thick chocolate frosting Deb so lovingly baked in our kitchen for each birthday. Of course, Brian's and Carrie's first day school pictures were taken each August on our front porch steps. Those small pencil lines in our pantry doorway, you guessed it, memorialize Brian's and Carrie's height over time. Sleepovers, funny movies and bar-b-ques on the rear deck – each helped frame the best of times for our family!

Christmas Eve dinners were, and continue to be, a magical experience in our home. A pilgrimage of family and friends bring their favorite recipes year after year. Their presence and contributions to this annual potluck gathering is followed by a white elephant gift exchange and Christmas caroling before we head off for midnight services. It's our family's favorite night of the year, not only because it is Christmas Eve, but because of the incredible bonding we experience with our family and friends in our home.

Fast forward to today. Almost every Monday night Carrie and her girlfriends make brownies before watching their favorite TV show in our family room. Brian and his friends often stop home over the weekend for dinner, a football game or just to hang out. Deb and I simply smile at the beauty of these precious memories. We are truly grateful for our home and the incredible gifts and experiences God has given us.

For me, that is what building homes is all about – creating beautiful and safe structures so children, parents, family and friends can make and share the memories of their lifetimes. Every day our company has the privilege of helping people create their own unique places and

spaces. We get to listen as people tell us about their families, their wants, their needs, their values, *and their dreams*. Then we bring together an incredible team of talented people, orchestrating our client's plans to shape and give life to their dreams. In the end, what would otherwise simply be a house, becomes *an extraordinary home*.

Walt, Terri and I hope this book will help you move forward to custom design and build your own unique, one-of-a-kind home – a special place to make your family's memories. Now that you know more about what's involved, we trust you will find a great builder to make your family's home and dreams come true.

As Trace Adkins sings the chorus from his popular country song "You're Gonna Miss This" written by Gorley Ashley Glenn and Miller Lee Thomas:

*"You're gonna miss this.  
You're gonna want this back.  
You're gonna wish these days hadn't gone by so fast.  
These Are Some Good Times.  
So take a good look around.  
You may not know it now.  
But you're gonna miss this."*

We can't change our past, but we can change our future. Make the best memories of your life today, tomorrow and every day extraordinary. We never know how long it will last. Enjoy your journey, because some day you're gonna miss this!



Marvin K. Ritter, Co-Founder  
Rite-Way Custom Homes, LLC

# About Rite-Way Custom Homes

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**M**arv, Walt and Terri are in the business of building their client's dreams. Their passions are uncovering each client's vision and expertly producing houses, renovations and additions within the budgets and time frames agreed with their clients. They love the feeling of creating significant and enduring structures which play such pivotal roles in shaping the direction and lives of their client's families.

Although building and renovating *houses* is gratifying, Marv, Walt and Terri find much more fulfillment in building and renovating *homes*. When they apply their experience and expertise in partnership with their client's visions, hopes and dreams, the results evolve from *simply a house to an extraordinary home*. Their creations become places their clients find comfort, relaxation, family companionship, and yes, to live their lives to their fullest!

Everyone doesn't need or want a large or fancy home. However, we believe everyone deserves the opportunity to design their place of solace, refuge, safety, comfort and beauty. Our goal is to partner with our clients to create extraordinary homes which provide those comforts (and more) through great design, attention to detail, accurate budgeting and timely completion.

Your new home should be *your vision* of beauty. That's why in 30 years of building homes, we have never built the same home twice. Each of our homes are custom designed and built to our client's specific requirements. We wouldn't want it any other way and suspect you will choose a custom builder such as Rite-Way to work with you to design and build a *magnificent, extraordinary home* for your family's specific needs and lifestyle vs. simply buying a *house* which was designed and built without your input.

Since 1990, we have built some of the most beautiful homes in the western suburbs of Chicago. We'd like to build one for you too!

*Marv, Walt & Terri*

Marv, Walt and Terri

## **Rite-Way Custom Homes, LLC**

540 Duane Street, 2<sup>nd</sup> Floor Glen Ellyn, IL 60137  
(630) 790-8144, [www.RiteWayCustomHomes.com](http://www.RiteWayCustomHomes.com)

## About The Authors

### **Marv Ritter, Walt Arway and Terri Smith-Pfeiffer**

#### **Rite-Way Custom Homes, LLC**

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Marv Ritter grew up in a small town in central Iowa. He quickly learned real estate businesses from his family, who owned a number of residential and commercial rental properties. After college and graduate school, Marv moved to Glen Ellyn, IL starting his corporate business career in technology. Along the way Marv acquired several single-family rental units before assembling and operating a mid-sized apartment complex in Naperville, IL. In 1990, Marv joined forces with Walt to co-found Rite-Way Custom Homes. Marv lives in Glen Ellyn with his wife Deb who is a Realtor with Keller Williams. Together they have two fabulous adult children and a rescue dog named Cooper.



Walt Arway grew up on the New Jersey shore. He is the son of a prominent residential builder and remodeler. Virtually every day of Walt's life, he has been around construction projects, including as a teen working in his father's construction company. After college, Walt moved to the western suburbs of Chicago, married the daughter of a Glen Ellyn home builder, and immediately started his career building homes. Walt lives in the western suburbs of Chicago with his wife Laura, an interior home designer. Between them, they have five extraordinary adult children.



Terri Smith-Pfeiffer grew up in the southwest suburbs of Chicago. She worked for a commercial builder in Glen Ellyn and as the Financial Manager of the construction department of Marshall Fields, among others, before joining Rite-Way Custom Homes in 2004 as its Chief Financial Officer. Terri has lived most of her adult life in Glen Ellyn. She and her husband Steve have an amazing adult son and three cats. As an added note, Terri actively volunteers in Glen Ellyn and Wheaton with PADS (Public Action to Deliver Shelter). Terri has served four years as the Treasurer, and currently is serving a two year term as the President of the Glen Ellyn Chamber of Commerce.

# How To Reach Us

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**Y**ou can reach Marv, Walt, and Terri (and see additional examples of their work) here:

## **Showroom and Business Office:**

Marv Ritter, Walt Arway and Terri Smith-Pfeiffer  
Rite-Way Custom Homes, LLC  
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## **Social Media:**

Website: [www.RiteWayCustomHomes.com](http://www.RiteWayCustomHomes.com)  
Facebook: [www.facebook.com/RiteWayCustomHomes](http://www.facebook.com/RiteWayCustomHomes)  
Houzz: [www.houzz.com/projects/users/RiteWayCustomHomes](http://www.houzz.com/projects/users/RiteWayCustomHomes)  
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ADDITIONS & RENOVATIONS  
(630) 790-8144

*Marv, Walt & Terri*



# LEARN THE TIPS AND TRAPS OF BUILDING AN EXTRAORDINARY CUSTOM HOME

In their new book, Custom Home Builders Marv Ritter, Walt Arway and Terri Smith-Pfeiffer lead you step-by-step through the “must-know” issues of building your dream home. Packed with wisdom and practical knowledge, Marv, Walt and Terri put their years of experience to work for you by revealing the home building secrets that could save you headaches, heartaches and thousands (if not tens of thousands) of dollars.

## In this helpful and user-friendly book you will:

- Learn the 10 critical questions to ask before you build.
- Find out the 7 most important places to spend money on your home.
- Understand the top 11 mistakes made by new homeowners...and how to avoid them.
- Discover the startling step most people fail to take when choosing a builder.
- Uncover the unwelcome surprises that could inflate your custom home cost.
- Find out the secrets of how to make your builder love you and treat your new home like his own.
- Learn the 8 common arguments homeowners and home builders have...and how to avoid them.
- Verify that the new construction process is on track with 7 helpful checklists.



Since 1990 Marv Ritter, Walt Arway and Terri Smith-Pfeiffer have built some of the most beautiful homes in the western suburbs of Chicago. They and their company, Rite-Way Custom Homes, LLC, are known for their attention to detail and custom finishes. In over 30 years they have never built the same home twice as each of their homes are custom designed for the specific

requirements of their clients. Through a partnership with their Amish cabinet maker, they build and install handmade, heirloom furniture quality, cabinets for their custom homes, additions and renovations. Marv, Walt and Terri would love the opportunity to design and build (or renovate) a home for you in Glen Ellyn, Illinois or the surrounding western suburbs of Chicago.

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