

LEARNING MADE EASY



Building Your Custom Home

**for
dummies[®]**
A Wiley Brand



Understand custom-home building

Determine the best type of loan for your situation

Explore architectural design and building materials

**Kevin Daum
Janice Brewster Weiser
Peter Economy
Anne Mary Ciminelli**



Building Your Custom Home

**by Kevin Daum, Janice Brewster Weiser,
Peter Economy, and Anne Mary Ciminelli**

**for
dummies®**
A Wiley Brand

Building Your Custom Home For Dummies®

Published by: **John Wiley & Sons, Inc.**, 111 River Street, Hoboken, NJ 07030-5774, www.wiley.com

Copyright © 2021 by John Wiley & Sons, Inc., Hoboken, New Jersey

Published simultaneously in Canada

No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning or otherwise, except as permitted under Sections 107 or 108 of the 1976 United States Copyright Act, without the prior written permission of the Publisher. Requests to the Publisher for permission should be addressed to the Permissions Department, John Wiley & Sons, Inc., 111 River Street, Hoboken, NJ 07030, (201) 748-6011, fax (201) 748-6008, or online at <http://www.wiley.com/go/permissions>.

Trademarks: Wiley, For Dummies, the Dummies Man logo, Dummies.com, Making Everything Easier, and related trade dress are trademarks or registered trademarks of John Wiley & Sons, Inc., and may not be used without written permission. All other trademarks are the property of their respective owners. John Wiley & Sons, Inc., is not associated with any product or vendor mentioned in this book.

LIMIT OF LIABILITY/DISCLAIMER OF WARRANTY: WHILE THE PUBLISHER AND AUTHOR HAVE USED THEIR BEST EFFORTS IN PREPARING THIS BOOK, THEY MAKE NO REPRESENTATIONS OR WARRANTIES WITH RESPECT TO THE ACCURACY OR COMPLETENESS OF THE CONTENTS OF THIS BOOK AND SPECIFICALLY DISCLAIM ANY IMPLIED WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE. NO WARRANTY MAY BE CREATED OR EXTENDED BY SALES REPRESENTATIVES OR WRITTEN SALES MATERIALS. THE ADVICE AND STRATEGIES CONTAINED HEREIN MAY NOT BE SUITABLE FOR YOUR SITUATION. YOU SHOULD CONSULT WITH A PROFESSIONAL WHERE APPROPRIATE. NEITHER THE PUBLISHER NOR THE AUTHOR SHALL BE LIABLE FOR DAMAGES ARISING HEREFROM.

For general information on our other products and services, please contact our Customer Care Department within the U.S. at 877-762-2974, outside the U.S. at 317-572-3993, or fax 317-572-4002. For technical support, please visit <https://hub.wiley.com/community/support/dummies>.

Wiley publishes in a variety of print and electronic formats and by print-on-demand. Some material included with standard print versions of this book may not be included in e-books or in print-on-demand. If this book refers to media such as a CD or DVD that is not included in the version you purchased, you may download this material at <http://booksupport.wiley.com>. For more information about Wiley products, visit www.wiley.com.

Library of Congress Control Number: 2021942675

ISBN 978-1-119-79679-4 (pbk); ISBN 978-1-119-79680-0 (ebk); ISBN 978-1-119-79681-7 (ebk)

Contents at a Glance

Introduction	1
Part 1: Getting Started with Custom-Home Building	5
CHAPTER 1: The Custom-Home Process in a Nutshell	7
CHAPTER 2: Preparing for the Process	21
CHAPTER 3: The Land Grab: Selecting the Perfect Site	39
CHAPTER 4: Defining Your House Style	61
Part 2: Assembling Your Team	81
CHAPTER 5: Architects and Design: Time Spent Is Money Saved	83
CHAPTER 6: Engineers and City Folk: Approval Bureaucracy Made Somewhat Easy	109
CHAPTER 7: All the King's Men: The Contractor and Their Cohorts	125
Part 3: All You Need Is Dough: Financing Your Custom Home	141
CHAPTER 8: Cash Is King: Borrowing to Your Advantage	143
CHAPTER 9: Knowledge Is Power: What You Don't Know about Construction Loans Can Hurt You	157
CHAPTER 10: Qualifying: It's the Bank's Way or the Highway	179
CHAPTER 11: Show Me the Money: Flowing Cash through the Project	203
Part 4: Hammers and Nails: Overseeing the Construction Process	219
CHAPTER 12: Excavation and Foundation: Getting a Solid Start	221
CHAPTER 13: Framing and Rough: So Much Goes behind Those Walls!	237
CHAPTER 14: Heading for the Finish: The Devil's in the Details	261
Part 5: All the After Stuff	287
CHAPTER 15: Making a House a Home: Moving In, Furnishing, and Using Smart Tech	289
CHAPTER 16: Taking It Outside: The Art of Landscaping and Hardscaping	297
CHAPTER 17: Making Your Nest Egg Financially Sound	313

Part 6: The Part of Tens	321
CHAPTER 18: Ten Common Custom-Home Mistakes and How to Avoid 'Em.	323
CHAPTER 19: Ten Great Ways to Lower Construction Costs	329
CHAPTER 20: Ten Common Stuck-in-the-Middle Problems and Their Fixes.	337
CHAPTER 21: Ten Ways to Build Sustainably	345
CHAPTER 22: Ten Helpful Custom-Home Resources	353
Index	359

Table of Contents

INTRODUCTION	1
About This Book	1
Foolish Assumptions	2
Icons Used in This Book	3
Beyond the Book	3
Where to Go from Here	4
 PART 1: GETTING STARTED WITH CUSTOM-HOME BUILDING	 5
CHAPTER 1: The Custom-Home Process in a Nutshell	7
Where Do You Start? Preparing to Build Your Home	8
Money Makes the World Go Round: Paying for Your Home	9
Asking yourself about affordability	9
Them that has the gold makes the rules: If you finance, the bank will dictate process	10
Introducing the Custom-Home Life Cycle	11
It takes (more than) two to tango: A quick guide to the players	12
So many tasks, so little time: Fifty steps to a custom home	14
Patience is a virtue: A true timeline for building your home	17
Being an Owner-Builder: More Power to You!	18
Analyzing the truth about savings	19
Finding and managing subs	19
Financing implications	20
 CHAPTER 2: Preparing for the Process	 21
Organizing and Documenting	21
Building a workbook and portable file system	22
Calendar and communication: Your smartphone is your friend	23
Being the bean counter: Keeping track of your finances	24
Shopping and sharing: Collecting material information	24
Budgeting Your Project	25
Looking at your finances and cash flow	25
Defining “dollars per square foot”	26
Using a budgeting template	28
Hiring a Contractor	29
Understanding the contractor’s role	30
Getting bids: Comparing apples to apples	31
Evaluating a contractor’s three Cs: Cost, craftsmanship, and compatibility	32
Using expert interviewing techniques	33

Identifying Insurance Issues	34
Liability policy	34
Workers' compensation	35
Course of construction policy	35
Managing Your Expectations	36
Planning a timeline: A custom home is forever (so, what's the hurry?)	36
Making hard choices: What you can (and can't) afford	36
Having patience: Not everything must be perfect right away	37
Making the process fun	37
CHAPTER 3: The Land Grab: Selecting the Perfect Site	39
Knowing the Difference between Land and a Lot	40
Location, Location, Location: Refining Your Lot-Buying Needs	41
Lifestyle	41
Marketability	42
Finding a Lot	42
Surfing for turf	42
Engaging a real-estate agent/lot specialist	43
Doing the legwork on your own	43
Finding a lot when there isn't one	44
Evaluating a Particular Lot: The True Value of Dirt	45
Examining amenities and utilities	45
Zoning in on zoning's limitations	46
Understanding setbacks and footprints	47
Size matters: Assessing the land's value with the house	49
A tale of two lot buyers: How square footage impacts value	50
Dealing with a Teardown Property	51
Accounting for demolition costs	51
Assessing neighborhood tolerance	51
Financing pros and cons	52
Buying Your Land	53
Understanding the purchase process	53
Using the bank	55
Finding other land loan alternatives	58
Making sure the loan period is long enough	59
Stop! Don't pay off your lot yet!	60
CHAPTER 4: Defining Your House Style	61
Getting to Know Your Style Preferences and Limitations	61
Educating your eye	62
Discovering your local style	62
Playing by community rules	63
Tapping the wisdom of the pros	64

Considering Conventional Construction: Wood versus Steel	65
Enjoying the Warmth of a Log Home	66
Two ways to skin a log	67
Purchasing your log package	69
Highlighting Wood Inside: Timber Frame or Post-and-Beam	70
Considering a System Approach	74
Weighing your options	74
Making a purchase	76
On the line	77
Unearthing Alternative Construction Methods	78

PART 2: ASSEMBLING YOUR TEAM 81

CHAPTER 5: Architects and Design: Time Spent Is Money Saved 83

Arming Yourself with an Architect	84
Deciding whether you even need an architect	84
Finding the right architect	85
Managing the architecture process	86
What does all this cost?	87
Looking at Architect Alternatives	89
Published floor plans: Picking a home from books or online	90
Software programs: Designing your own plans	90
Hiring a home designer	91
Placing the House on the Lot	92
Foundation issues	92
Which orientation is best? North, south, east, or west	92
Taking advantage of natural elements	94
Planning the Size and Shape of Your Home	95
Size matters: Figuring the right square footage	95
Resale potential: Creating a house everyone wants to buy	97
Exterior styles: Considering architecture examples	97
Designing Your Home's Interior	98
Ten general floor-plan considerations	99
Special considerations room by room	100
So Many Details, All of Them Important	105
Materials, hardware, fixtures, and finishes	105
Allowance is a dirty word: Making all your decisions now	107
Energy efficiency: Saving the earth (and your money!)	107

CHAPTER 6: Engineers and City Folk: Approval Bureaucracy Made Somewhat Easy 109

Understanding Plans and Blueprints	109
Prelims: Floor plans, site plans, and elevations	110
Working drawings: The how-to-build-it papers	112

Working with the Building and Planning Departments	115
Submitting Your Prelims for Approval	116
Addressing grading, septic, and well issues.	117
Understanding design guidelines	117
Requesting variances and exceptions:	
Don't be Don Quixote	118
Not so fast: Acquiring neighbor approval	119
Gathering the Permits You Need	121
Submitting and revising the working drawings.	121
Picking up permits and paying the fees	122
 CHAPTER 7: All the King's Men: The Contractor and Their Cohorts	 125
Working with Your Contractor.	125
Fostering good communication: A meeting a day keeps the anger away	126
Maintaining a productive work environment	127
Change orders: Dealing with indecision.	128
Maintaining a happy and healthy relationship with your contractor	129
Managing Your Time and Money	129
Executing contracts	130
Scheduling the project	132
Controlling the funds: How to manage the bank account.	132
Introducing Other Important Players	133
Dealing with suppliers	134
Working with subs: Each one is an expert	134
Preparing for building and bank inspectors	136
Managing Disputes	137
Avoiding mechanic's liens: The contractor's weapons	137
Using legal remedies: Arbitration and attorneys	138
 PART 3: ALL YOU NEED IS DOUGH: FINANCING YOUR CUSTOM HOME	 141
CHAPTER 8: Cash Is King: Borrowing to Your Advantage	143
Accepting the Need for Liquidity: Cash, Cash, and More Cash.	144
Breaking the Emotional Barriers: This Is Not Your Grandfather's Depression	145
Evaluating real estate within your net worth	146
Seeing why secured debt can be good.	147
Getting on the same page: How banks evaluate risk.	148
Changing perspective: Home equity isn't a savings account.	148
Understanding the benefits of liquidity	149

Okay, So You Have All This Cash — Now Manage It	150
Finding and working with a financial adviser	150
Diversifying your portfolio	151
Exploring alternative investments	152
Turning Your House into a Moneymaking Machine	153
More house for less cash: Benefiting from leverage and appreciation	153
Protecting your investment by making it marketable	154
Understanding taxes: Some parts of a home project are deductible	154
Safely Deferring Financial Decisions until the End of the Construction Project	155
CHAPTER 9: Knowledge Is Power: What You Don't Know about Construction Loans Can Hurt You	157
Exploring Your Construction Loan Options	158
Finding a Good Construction Lender	161
Choosing a broker or a bank	162
Testing a loan officer's knowledge	163
Getting value added: Education and experience are worth the money	164
Private money: The last resort.	165
The Loan Process from Start to Finish: When to Do What	165
Deciding when to sell your existing house	166
Applying on time	167
Getting the loan after construction starts	167
Preparing the paperwork	168
Locking in an interest rate	169
Determining the length of your construction loan	170
Understanding All the Fees	170
Points.	172
Escrow and title: More than with other loans	173
So many appraisal fees.	174
Insurance costs	175
All the little stuff.	175
Letting the Lender Carry Your Burden	177
If someone offers you money, take it.	177
No payments: Taking an interest reserve	177
CHAPTER 10: Qualifying: It's the Bank's Way or the Highway	179
Stepping behind the Desk: How a Construction Lender Views Your Project	180
Why some lenders may seem uncaring	180
How lenders assess risk	181

How banks view your property	182
How lenders view contractors	182
How lenders view occupancy.	183
How lenders view spec projects	184
Recognizing What a Construction Lender Really Wants to See	184
On your credit report	186
On your tax returns.	188
In your bank accounts.	189
On the appraisal	191
Building the Bank's Construction Budget	193
Land costs.	194
Soft costs.	194
Hard costs.	195
Contingency	195
Interest reserve	196
Closing costs.	197
Totaling up the cost to build	197
Calculating the Loan Amount and Cash.	197
Basing the loan on finished value	198
Basing the loan on cost to build	198
Calculating the cash needed for the project	199
Solving Other Budget Problems	201
Landscaping and finish work can kill the project	201
Costing: What if I can build on the cheap?	202
What if I need more cash than is in my budget?	202

CHAPTER 11: **Show Me the Money: Flowing Cash through the Project**

Managing a Self-Funded Project	204
Working with a Construction Lender	204
Of course, you don't get all the money up front.	205
Preparing for inspection.	205
Lobbying the lender	206
Understanding How the Voucher System Works	207
Taking a Closer Look at the Draw Reimbursement System	209
Figuring which costs are which	210
Managing the flow of funds with percentages and contingencies	213
Paying the subs	213
Dealing with deposits	214
Using the draw system to pay for your log or kit home deposits	214
Acing your finals: Final completion and final funds	215
Figuring Out Who Gets the Money — You or the Contractor	215
Using Credit Cards Responsibly Can Buy You a Trip to Europe	217

**PART 4: HAMMERS AND NAILS: OVERSEEING
THE CONSTRUCTION PROCESS219**

CHAPTER 12: Excavation and Foundation:

Getting a Solid Start.....	221
Surveying and Site Preparation.....	222
Examining your land.....	222
Using your survey.....	222
Preparing your site before the first shovelful.....	224
Dealing with trees.....	225
Clearing and grading.....	226
Constructing retaining walls.....	227
Providing drainage.....	228
Marking the build site.....	229
Spot-check: Surveying and site preparation.....	229
Preparing for the Utilities.....	230
Connecting water.....	230
Hooking up to the sewer.....	231
Installing septic systems.....	231
Bringing in electricity.....	231
Piping in gas.....	232
Spot-check: Utilities.....	232
Pouring the Foundation.....	233
Excavating the site.....	233
Installing the foundation.....	234
Spot-check: Foundations.....	235

**CHAPTER 13: Framing and Rough: So Much Goes
behind Those Walls!.....**

Things to Consider Before Framing and Rough Work Begin.	238
Questions to ask your contractor	238
Establishing a schedule	239
Trusses and I-beams: Yes or no?.	239
Looking at What's Involved in Framing a House.	240
Understanding the framing process.	241
Spot-check: Framing	246
Installing the Rough Systems with Ease.	246
Rough plumbing	247
Spot-check: Plumbing	251
HVAC	251
Spot-check: HVAC	252
Rough electrical	253
Spot-check: Rough electrical	256

Sheathing, Flashing, and Insulation	257
Covering the framing: Sheathing and flashing	257
Rolling out the insulation	258
Spot-check: Sheathing, flashing, and insulation	258
CHAPTER 14: Heading for the Finish: The Devil's in the Details	261
The Icing on the Cake: Exterior Finishing	262
Applying wall coverings	262
Finishing an attached deck	264
Up on the roof: Roofing and rain gutters	265
Installing the driveway: Finish options	268
Exterior lighting	269
Spot-check: Exterior finishing	269
Moving Inside: Completing Fireplaces and Walls	270
Fireplaces and hearths	270
Drywall and wall textures	271
Spot-check: Fireplaces and walls	273
The Finish Carpenters: Doors, Windows, Molding, Cabinets, and Countertops	273
Doors and windows	275
Baseboards and moldings	276
Cabinetry and countertops	277
Spot-check: The finish carpenters	279
All the Pretty Stuff	279
Painting	279
Hardware and fixtures	281
Flooring materials	283
Appliances	285
Spot-check: Painting, fixtures, flooring, and appliances	285
PART 5: ALL THE AFTER STUFF	287
CHAPTER 15: Making a House a Home: Moving In, Furnishing, and Using Smart Tech	289
Finishing Up the Custom-Home Project	289
Getting your certificate of occupancy	290
Obtaining the mechanic's lien releases	291
Rolling the construction loan: Choosing a final loan amount and program	291
Taking the final contractor walk-through	292
Selling the Old Home and Moving	293
Considering Technology Options	295

CHAPTER 16: Taking It Outside: The Art of Landscaping and Hardscaping	297
Designing Your Dream Landscape	298
Using a designer: Yes or no?	298
Revisiting your site plan	300
Considering your wants and needs	301
Dealing with your climate.	303
Saving time and money by design	304
Getting your plan on paper	304
Putting Your Plan in Action: Hardscaping	305
Planning a patio, daddy-o.	306
Lounging on the deck	306
The art of fencing.	307
Building great walls.	308
Adding water	309
Lighting the way.	309
Leafing Out: Softscaping with Plants	310
Planting trees after construction.	310
Adding texture with shrubs	311
Bloom time: Annuals and perennials	311
CHAPTER 17: Making Your Nest Egg Financially Sound	313
Managing Maintenance and Repairs	313
Understanding the builder's long-term responsibilities and warranties.	314
Dealing with construction defects.	314
Should You Stay or Should You Go?	316
Being aware of new neighborhood trends	316
Looking at the tax implications	317
Identifying the Best Permanent Financing Solution	319
Fixed versus adjustable rate	319
Pay it off or not	319
Refi down the line	320
PART 6: THE PART OF TENS	321
CHAPTER 18: Ten Common Custom-Home Mistakes and How to Avoid 'Em	323
Designing a House Unlike Others in the Neighborhood	323
Attempting to Build outside the Design Review Guidelines	324
Thinking the House Will Be Worth What It Costs	324
Paying Off the Lot Before Starting to Build	325
Waiting for Permits to Investigate Construction Financing.	325
Applying for the Construction Loan Too Early	326

Applying to Too Many Lenders	326
Borrowing the Minimum to Get By	327
Spending Your Own Money First	327
Selling Your Existing Home Before Building the New One	328
CHAPTER 19: Ten Great Ways to Lower Construction Costs	329
Build the House That Suits the Land	330
Make It Tall to Keep Your Budget Small	330
Keep It Simple and Tasteful	331
Use Design Elements to Eliminate Costly Materials	331
Choose and Order Items in Advance	332
Use Surplus Materials for an Old-Style Home	332
Group Simple Windows for a Custom Look	333
Avoid Change Orders	333
Go Faux	334
Get Creative	335
CHAPTER 20: Ten Common Stuck-in-the-Middle Problems and Their Fixes	337
My Home Is Behind Schedule	337
My Construction Loan Is Expiring and the House Isn't Complete	338
My Contractor Wants More Money in a Fixed-Price Contract	339
Everything Costs More Than My Budget in a Time-and- Materials Contract	340
The Bank Won't Fund the Draws	340
I'm Out of Cash	341
The House Is Having Some Engineering Problems	341
My Contractor and I Can't Get Along	342
My Contractor Walked Off the Job	342
This Project Is Breaking Up My Marriage	343
CHAPTER 21: Ten Ways to Build Sustainably	345
Making the Best Use of Your Lot	345
Avoiding an Oversized House	346
Planning for the Ages	346
Making Your Landscape Earth-Friendly	347
Using Alternative Energy Sources	348
Going on an Energy Diet	349
Cutting the Fumes	350
Making Recycling Easy	350
Using What You Have	351
Stashing and Storing	351

CHAPTER 22: Ten Helpful Custom-Home Resources	353
Land Ho! Finding Land to Build On	353
Finding Home Design Inspiration	354
Decorating for the Uninitiated	354
Building a Log or Timber Frame Home	355
Looking for Home Plans	355
Working with an Architect	356
Turning to the National Association of Home Builders	356
Getting Support if You Want to Be Your Own Builder	356
Designing a Home with the Environment in Mind	357
Landscaping Your Home with Native Plants	357
INDEX	359

Introduction

As you read this book, you most likely have the seed of a dream taking root in your mind. Your current home isn't all it could be. You've been day-dreaming about a different place — one with more land, one by the water, or one with a gourmet kitchen. You've trolled the open houses in your area, but none of the homes really lights your fire or seems to fit your lifestyle or your family. You want something that feels more like you.

The only way to get a perfect house “fit” is to design it specifically for you. Whether your new home is a month away from completion or ten years down the road, you need this book.

In our work, we've seen plenty of people like you tackle the process of building a custom home. For some, the process is challenging, but enjoyable. For others, a custom-home project becomes a nightmare that leaves them short on cash and long on anxiety. We understand the process and what it takes to move through it with as little stress as possible. In this book, we provide you with the very best advice our many years of experience have to offer.

No matter if your dream consists of a simple \$250,000 house in the Midwest or a multi-million-dollar mansion in California, *Building Your Custom Home For Dummies* is for you. This book can help you turn your dream of a custom home into reality without losing your shirt or your sanity. With this book (and some hard work and perseverance on your part), your dream of building, owning, and living in your very own custom home can come true.

About This Book

Thousands of parts and hundreds of tasks go into a custom-home project. This book doesn't tell you how to install a toilet or hang a door (other *For Dummies* books cover those topics in detail), but it does tell you everything you need to know about building a custom home from scratch. Where do you start? Who is responsible for what? How much will it all cost? These questions — and hundreds more — are what this book answers, and all in an easy-to-use reference that you can take with you anywhere.

The great thing about this book is that *you* decide where to start and what to read. It's a reference you can jump into and out of at will. Just head to the table of contents or the index to find the information you want.

Sidebars (text in gray boxes) and anything marked with the Technical Stuff icon (more on that later in this Introduction) are skippable. You may notice that some web addresses break across two lines of text. If you're reading this book in print and want to visit one of these web pages, simply key in the web address exactly as it appears in the text, pretending as though the line break doesn't exist. If you're reading this as an e-book, you've got it easy — just click the web address to be taken directly to the web page.

Foolish Assumptions

We wrote this book with some thoughts about you in mind. Here's what we assume about you, our reader:

- » You've been sketching your custom home on napkins or doodling floor plans during business meetings. You've looked at your current home with a critical eye and have, at least once, sighed and muttered, "Someday. . ."
- » You're drawn to home-improvement stores, television shows, and books.
- » You're desperately looking for a comprehensive guide that demystifies the home-building process by focusing on the information important for you the homeowner to know.
- » You're willing to do some soul searching in order to get your custom home right. You (and any significant others you may have) have decided that the only way to get the perfect home is to start from scratch.
- » You don't live in a "money-is-no-object" world. You want to make educated financial decisions regarding the budget and long-term financing of your custom home.
- » You want to be involved with the process, but you'll rely on professionals to help you when you need it. Professional help may come in the form of a financial adviser or loan officer, an architect or designer, a plumber, or a landscaper. You're willing to assess your strengths and weaknesses and seek help when necessary.

- » You'll hire a contractor in some capacity. We provide some small tidbits of information if you want to be your own owner-builder, but the majority of this book focuses on building a custom home with a contractor.
- » You have the ability to keep an open mind and consider new approaches and information, even when they seem at odds with what you've always been told about the custom-home and financing processes.

Icons Used in This Book

To make this book easier to read and simpler to use, we include some icons in the margins that can help you find and fathom key ideas and information.



TIP

The Tip icon highlights expert advice that will help you save time and money in the home-building process.



REMEMBER

The Remember icon highlights important information to store in your brain for quick recall at a later time.



WARNING

Avoid mistakes by following the sage words of advice that appear next to the Warning icon.



TECHNICAL
STUFF

Although the information marked by the Technical Stuff icon may be fascinating, it's not critical to understanding the topic at hand. Feel free to skip it if you're short on time.

Beyond the Book

In addition to the book you have in your hands, you can access some helpful extra content online. Check out the free Cheat Sheet for tips on finding the right contractor, design elements to consider, and more by going to www.dummies.com and entering **Building Your Custom Home For Dummies** in the Search box.

Where to Go from Here

The process of building a custom home isn't linear. Not everyone starts with the purchase of a piece of land, for instance. Some people go to an architect first to help them create a floor plan. Others may jump right in with both feet and be halfway through construction before they realize they need to borrow money in order to finish.

So, to reflect the nonlinear process of building a custom home, this book is decidedly nonlinear as well. We organize it so that you can dip in wherever you want and still find all the information you need. If you've already bought land and met with an architect, but you don't know how you're going to pay for the project, for instance, go to Chapter 8 to read up on financing. Not clear who does what on the job site? Flip to Chapter 7 for information on general contractors and subcontractors.

If you're not sure where to go first, you may want to start with Part 1. It gives you all the basic information you need to understand the process of building a custom home. From there, you can skip to the chapters that cover the subjects that seem most fuzzy to you now. Rest assured that when you've read those chapters, you'll have a better grip on the home-building reality.

1

Getting Started with Custom- Home Building

IN THIS PART . . .

Find a general overview of the custom-home-building process.

Get and stay organized.

Acquire the right piece of land and pay for it.

Decide on the type and style of home you want.

IN THIS CHAPTER

- » Getting ready for the custom-home process
- » Considering the finances
- » Understanding all the steps and time involved
- » Deciding whether to be your own contractor

Chapter 1

The Custom-Home Process in a Nutshell

Many people, at some time in their lives, want to own a custom home. Some people are attracted to the thought of designing and creating something big from scratch. Others want to live in a new home that meets their specific needs instead of a house that looks like every other home on the block. Some people begin the custom-home process by accident when they find a piece of land that inspires them.

According to the National Association of Home Builders, more than 20 percent of new homes in the United States are custom homes. That means more than 175,000 custom homes are built every year. For each person building a custom home, several people are in the process of designing one. So, you're in excellent company with many people dreaming about moving into a home designed and built just for them. Custom homes are popular, so tons of resources are available to help you through the process.

But, like Rome, your new home won't be built in a day. The custom-home process is lengthy, emotional, and expensive, without much consistency to it. Face it: Custom homes require custom work, and plenty of it! This work makes building a custom home challenging, and yet that extra work is what makes your project unique to you. You may feel overwhelmed at times, but by trusting in the

experience of the professionals you engage in your project and keeping this invaluable book by your side, you can have a manageable project that delivers the custom home you've been dreaming of.

Where Do You Start? Preparing to Build Your Home

Believe it or not, the custom-home process really has no standard starting place. There are some logical entry points, such as finding land, but most often people start with a designed house they've had in mind for a long time. Where you start isn't important; what *is* important is for you to make sure that you've taken all the necessary steps to give yourself the best chance for success. The following list includes some questions you need to consider before committing time and money to this project:

- » Where do I want to live?
- » How long do I want to live in this house?
- » How will I find land? (See Chapter 3.)
- » How much money do I have to spend on this project? (See Chapters 8, 9, and 10.)
- » How much extra time do I have to put into this project? (See Chapter 2.)
- » How do I find the right resources to design my house? (See Chapter 4.)
- » How do I find the right resources to build my house? (See Chapters 2 and 7.)
- » Is my relationship strong enough to survive this process? (See your therapist.)

Don't make the assumption that any one person can give you all the information you need to prepare for this process. Contractors have one perspective on the process, and architects may have a completely different one. Do your homework and interview as many people as you can who have been involved in the process. By talking to professionals and consumers and asking them to share their experiences, you can begin to get a clearer picture of the process ahead.



TIP

Kevin recommends to all his clients that they get organized before beginning the process. Sit down and assess how much time you can put aside each week to focus on the project. Consider making a specific day each week your day for working on custom-home stuff. Also, clear a space in your office or den to be "Custom-Home Central." This way you always know where to find what you need for your project. (You can find other organizing tips for your project in Chapter 2.)

Money Makes the World Go Round: Paying for Your Home

We talk a lot about money in this book, and with good reason. Custom homes require plenty of it. Your new home will probably be the most expensive item you've ever purchased. In fact, it may be the most expensive item you'll ever buy in your entire life. Custom homes cost more than production or tract homes because the materials aren't bought in quantities and the labor hired includes individual craftspeople. The results are worth it, however, and will last lifetimes.

Many people find it a challenge to get past the large checks they're writing. If you decide to use an architect, even the first check to the architect will probably exceed the biggest check you've ever written. The key to success with money in a custom-home project is putting it in the right perspective. If your budget is \$500,000, then what each piece costs isn't important as long as all the pieces combined total \$500,000 or less.



REMEMBER

When you buy a new car, you don't argue over how much you spent for the alternator or the exhaust system. You look for the car to meet the price of your overall budget. Use the same logic when buying your custom home. Look for the best price on each item, but look at it in perspective to the entire budget. You'll do better on some items and worse on others, but as long as it fits your finances, you're in good shape.

Asking yourself about affordability

Of course, you've heard horror stories about custom-home projects that have gone seriously over budget. They go over budget for many reasons, but usually the main culprit is that the homeowners didn't spend enough time determining what they can afford. Obviously, if you're building well below your means, going over budget is easily rectified by using your own cash. But running out of money is the number-one cause of custom-home disasters. Before you start the custom-home process, you seriously need to consider the following:

- » **What can you physically pay?** Take stock of your cash on hand, equity in real estate, and available cash from other resources. Make a firm decision on how much money you're willing to put toward the project. Chapter 8 can be a big help. You also need to get a rough idea of how much borrowing power you have to help establish a limit for your budget when added to your available cash. Make sure you consult with a financial adviser. We provide tools and Kevin's expert financing assessments in Chapters 9 and 10.

- » **What can you emotionally pay?** Just because you have the money and the borrowing power doesn't mean you really want to spend it all. Think carefully and discuss with your spouse what your limits are for making payments and how much *liquidity* (cash) you need in the bank to help you sleep at night when all is said and done. Make sure you take into account tax deductions and interest earned on investments when analyzing your monthly cash flow. After you've found your emotional limit, you can design your project to fit your comfort zone.
- » **What's your cushion and tolerance for risk?** As we say again and again throughout this book, building a custom home is a complex process. You need to consider many variables beyond your control and then realize that the project can go over budget even if you do everything right. You can certainly get good solid estimates, but ultimately you won't know what this home will cost until it's finished and you total up the receipts. Make sure you've addressed the "what if?" issues thoroughly. Talk about how you'll cover things financially if the market turns sour — devaluing your property — or the cost of materials rise. Decide what safety money (such as your retirement fund) you're willing or unwilling to tap into.



REMEMBER

The more you talk about financial issues related to your custom-home project, the more likely you are to resolve problems before they happen. Optimism in a custom-home project can get you into trouble every time. The best approach is to examine every possible risk and make contingency plans for every potential problem.

Them that has the gold makes the rules: If you finance, the bank will dictate process

Most people don't have all the money for a custom home sitting in their bank accounts. Even if they did, putting it all into the project wouldn't be a good idea, as we explain in Chapter 8. Like it or not, you'll probably have a financial partner in this project in the form of a construction lender or bank. The good news is, construction lenders have the same objectives you do:

- » They want to make loans for custom-home projects. (That's how they make money.)
- » They want the house to be completed on time.
- » They want the house to be completed on budget.
- » They want the house to be completed in a workmanlike manner.

Furthermore, the following tidbits can save you some arguments and frustrations when working with construction lenders:

- » They don't believe a house is worth exactly what it costs.
- » A larger loan makes you a riskier borrower, not a better customer.
- » You aren't *entitled* to any loan.
- » They aren't required by law to loan you any money.
- » They dictate how the money is handled throughout the process.

Accept the fact that if you want to use a lender's money, you have to play by their rules. Most of these rules weren't made arbitrarily. They're designed to protect the financial viability of the project and protect the lender in the unlikely event of a *foreclosure*, which is the act of taking back the home in case you default on the payments or the construction contract. The banks don't want to foreclose on your home — they're not in the house-selling business. Worst of all, they don't want to foreclose on an unfinished construction project, when the property is neither an empty lot nor a finished home, but something in the dreaded middle. The guidelines and procedures are based upon statistical and anecdotal problems and failures that occurred with the lender in the past. Unfortunately, sometimes you pay for the sins of those who've gone before you.



TIP

Put yourself in the lender's shoes. If you were loaning a friend 80 percent of the money to build his home, you'd want a few protections in place and a little control over the money as well, right? If you get to know how lenders see the project, which we explain in detail in Chapters 9 and 10, you can easily navigate the approval process, as well as the funding process (see Chapter 11). This approach can make for a smoother, happier custom-home project.

Introducing the Custom-Home Life Cycle

The first step to beginning the process is looking at all the pieces and how they go together. Your new home has a number of individual projects and transactions necessary to complete it. Your new home also needs an army of people with their expert work and services. This section breaks down in an approximate order each person required to get through the process. Then we outline each step necessary to go from land to landscaping.

It takes (more than) two to tango: A quick guide to the players

The following list is a guide to all the individual players involved in the custom-home process. You may or may not use them all; their roles can vary depending on your region and your project's scope. The order of need may also change depending on where you start in your process.

- » **Financial planner and/or certified public accountant (CPA):** If possible, start the custom-home process by carefully assessing your finances; a financial planner or CPA can help make sure you can afford this project.
- » **Loan officer:** Your loan officer needs to be involved early and throughout the entire process. You may need to start with a refinance or credit line to get liquid (see Chapter 8). You want to finance the land (see Chapter 3) and do it consistent with the construction financing (see Chapters 9 and 10). Your loan officer can help you through these steps. Lucky for you, Chapter 9 also has good advice on picking the right loan officer.
- » **Real-estate agent:** You may need a real-estate agent to help you find and purchase a lot, as we discuss in Chapter 3. They also play a role when it's time to sell your existing home.
- » **Developer or landowner:** The land you buy has to come from somewhere. If you're buying in a subdivision from a developer, you may deal with a sales office. Or you may end up buying from a landowner who has had the property for generations.
- » **Escrow officer or attorney:** Your state determines who administers the closing of your escrow, but either way, this person makes sure the title papers and insurance are all ready for you to take ownership.
- » **Architect and/or designer:** Architects and designers design and draft plans for the house. Architects are licensed; they'll coordinate technical specifications for the house that may be beyond the scope of a designer. The architect can also guide you through the permitting process. (Chapter 5 can help you decide if you need an architect, and Chapter 6 provides the ins and outs of the permitting process.)
- » **Log or timber frame dealer:** If you're building a kit home (see Chapter 4), you'll work with your dealer for the design process, as well as the purchase of your materials package.
- » **Contractor/builder:** You need to decide whether you need this person or if you'll rely on yourself to drive the construction of your new home (see the "Being an Owner-Builder: More Power to You!" section, later in this chapter,