



Steps for Success in Custom Home Building

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Finding a Lot

Custom homes can be built on “spot lots”, (single lots or “off-conveyances”), or within subdivisions. Subdivision lots are generally, but not always, controlled by a builder. Often, this builder will offer his plans only with some custom features and options. If you desire a true custom home, this situation is not for you. In order to get into the custom side, you will need to have control (ownership) of the lot.

One possible trap to fall into can occur when trying to finance the lot and construction in one motion. This is possible, but can backfire if there are time constraints in the lot contract or in the financing. If you are going to go to settlement on both with the same loan, you will need to have your blueprint, house appraisal, and finance package, along with a selected builder and contract in hand. There often is not enough time to get all of these details together in the typical 30 - 60 days that you have to take possession of the lot. It is recommended that you get control of your lot, and then take the time necessary to get through the rest of the steps (see below).

- Check with the proper authorities to be sure that the lot is approved and ready for a building permit.
- Know whether it has public water or a well, and whether it is on public sewer or approved for a septic system. Buying a well and septic lot prior to having the well drilled is an added risk. It can be accomplished with the right “back-out” clauses in the event that water is not found or if the volume is not sufficient. A good realtor or real estate attorney can guide through these steps.

Blueprint

The “Blueprint” is a most important document. It contains nearly every pertinent measurement in the house. It specifies foundation size, window and door sizes, roof lines, roof pitch and height, interior wall heights, insulation specifications, wall thickness, etc. Also shown are elevations from all sides and cross sections, as well as plan views of each floor. A blueprint is different than a floor plan. A floor plan, usually on 8 1/2 x 11 paper, does not contain enough information with which to enter into contract. There will be many surprises along the way ! Your custom house should be drawn by a local architect or draftsman. In our area (Maryland), most of the blueprints from internet sites and “grocery store” plan books are not accepted unless modified for local conditions. Most of these types of blueprints are suited for southern building without basements. For the money spent to buy these plans and have them modified, you are better served to have your house drawn from scratch. It will cost about the same. In addition, you will be able to customize the entire project this way.



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Builder

Once you have your blueprint, meet with your prospective builder(s). They will need multiple copies (3 to 5 each) in order to get their suppliers' and subcontractors' input. Custom builders should come to you by referral, if possible. Visit their current sites and meet their customers. You will get an immediate feel for how your project will go once you meet a few current customers and walk through their jobs. References may also include local inspectors, bank inspectors, and even suppliers. (Do they pay their bills ?) The more specifications you can give your builder, the tighter your contract will be. The goal is to minimize surprises along the way by specifying items in detail.

Contract

Your builders should come back to you with bids in Contract form. When we come back to a customer to present a bid, it is generally complete and ready to go to the bank, if all looks acceptable. Many times there will be a round or two of changes and/or clarifications. You should have a Contract, Specifications, and a Lender's Draw Schedule. These 3 items plus the Blueprint are known as the Contract Documents. Sometimes a separate Allowance Schedule is also included (or it can be part of the Specifications). The Contract contains the legal information of both parties, the price, time frame, as well as the responsibilities of both parties. The Specifications contain a verbal description of the construction. In our documents, if there is a conflict between the Print and the Specifications, the Specifications will govern. This occurs now and then, and it is quicker and easier to change the written specifications than to revise the blueprint. Our Specifications include about 20 sections, from permits and surveying, through excavation, foundation, framing, roofing, interior trim, paint, flooring, etc. Each section should spell out what is included in the Contract, and even what is not included. An important part of the Specifications is the Allowance features. This is an area that is often misunderstood. An allowance is a dollar amount that is dedicated to a certain item or group of items. The amount is already included in the contract. There are material allowances, labor allowances, and material/labor allowances. Be sure to understand each allowance and which type it is. Typically, allowances are used for kitchen/bath cabinets and tops, flooring, appliances, light fixtures, and even faucets and driveways. The underlying reason for allowances is because there will not be enough time for the you to make all these selections during the bidding process. Also, there are frequent price changes from the time the bid is submitted until the home is built. It is the builder's job to understand your needs and wants during the bidding process so that he can make a reasonable estimate as to your budget for these items. If the builder's allowances are too low, the danger is that you will need out of pocket money to make the purchases during construction. It will not normally be possible for you to raise the loan amount. Hence, it would have to come from out of pocket. This could be detrimental leading up to the move-in date.



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Lender

Once you have the Contract Documents, head to your lender. You can shop around for lenders well in advance, but to get into application, you will need the Contract Documents. If you have a lot loan, it may or may not be incorporated into your construction loan. Be sure to understand the time constraints with the construction loan. Some give you 9 months to complete, some as much as a year. Normally, the loan will be a “construction-permanent” type, which means you will go to settlement prior to the beginning of construction. At the end, the loan will convert to a permanent loan. During construction, the rate is normally a variable rate. Near the end, the lender may give you the option of “locking-in” a permanent rate within 60 days of completion. This is a double edged sword. If rates are favorable at that time, and you feel they may go up in the next 60 days, you may lock it in. If you lock into that current rate and the builder does not deliver the Use & Occupancy Certificate by the 60th day, you will receive the prevailing rate when the house is complete. If rates have been steady or dropping, then there is no need to lock in the rate.

Permits

Once the Lender has given a commitment to you, the builder should file for local permits. The fees for these permits should be included in your Contract. Hopefully, once you go to the settlement table, the builder will be able to move in and start.

During Construction

During construction, visit the site as often as you can. A quick walk through every few days with your builder keeps you apprised of the progress. It also allows you the chance to ask questions and double check that you are receiving all the details that are called for on the print. Your builder should be guiding you through the selection process of roofing, siding, brick, tubs and showers, flooring, kitchens, baths, flooring, paint colors, etc. A good builder has control of his subcontractors and employees. There should be a flow from one phase to the next. Also, your site should be kept clean. Tradesman always do better work when the clutter is kept to a minimum. Be sure to take pictures. Our customers often enjoy the process and would actually repeat it again!