

Money

Build your dream house now

It's the best time in years to take your blueprint off the drawing board and construct it for real.

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(Money Magazine) -- With home values tumbling and the mortgage market still in crisis, you'd think that Billie and Rodney Wyldte would shelve their plans to build their North Carolina dream home - at least until the market stabilizes.

Not a chance. The thirtysomethings are set to pour the foundation on a 2,100-square-foot farmhouse with a wraparound porch in East Bend, a few miles from where they currently live. Estimated construction cost: \$140,000.

The couple hope to be able to move in as soon as November. "All the media talk about is this crisis," says Billie, an elementary school guidance counselor. "But it's actually a very good time to build."

She's right. Behind the dark clouds hanging over the housing market is a very compelling silver lining: The cost of building the home of your dreams is coming down. "If one or two years ago it cost you \$300,000 to build a custom home, today it should cost tens of thousands of dollars less," says Jim Haughey, chief economist at Reed Construction Data.

Why? With new-home demand drying up, the price of some construction materials has started to sink like a poorly laid foundation. Framing lumber is now 18% cheaper than it was 18 months ago, while drywall is selling for 40% less.

And because overextended developers picked up too much land during the bubble - and are motivated to sell - some lots are becoming dirt cheap. Land prices (often the single biggest expense for custom homes) in certain areas have fallen more than 20% in the past year or two.

"In terms of finding land you want at a good price, this is the best market that I have seen in my 30 years of home building," says Carl Heldmann, builder and author of *Be Your Own House Contractor*.

Contractors, meanwhile, are scrambling for your business thanks to a 34% decline in new-home starts. "Because of the slowdown, we are getting bids from subcontractors that are right in line with our price range," says Billie, 34. "And it's not like you have to get on a subcontractor's waiting list for six months."

Of course, building a home isn't something you should enter into lightly. It's a huge commitment - of both time and money. And just because prices are relatively cheap now doesn't mean you should rush out to break ground, especially since a poorly thought-out dream can quickly turn into a nightmare.

On the other hand, if you've always wanted a custom-designed home and are willing to do a lot of heavy lifting, today's market makes it easier and cheaper to realize your plans. Here's your blueprint:

Put a price tag on your dream

When you're buying an existing home, the process is simple: You figure out how much you can afford to spend. Then you go out into the marketplace to see how much home that budget will buy. For your custom house, you might come at it differently. Maybe you've always wanted a sunroom or a private terrace off the master suite. You may not have a clue how expensive these features are or how much it costs to build a home to begin with.

So you'll need to get a rough estimate - the first step in figuring out if you can afford the kind of house you're fantasizing about. Start by talking with general contractors or home-building consultants in your area.

If you decide to go for a custom home, you'll need to interview firms anyway to assist you. Ask them to show you projects they've worked on in the neighborhood and to give you different price options.

Also use available online tools to help. At building-cost.net, you'll find a detailed breakdown of prices for custom homes based on dozens of factors including size, shape, features, materials and location.

Understand the financing

Before you spend a dime on an architect or land, take the next step: Determine how much you'll be able to borrow by getting pre-approved for a loan. It's a noncommittal figure that can guide your planning.

"Too many people do it backward," says Jim Pair, vice president of the National Association of Mortgage Brokers. "Then they find they can't afford to build what they want where they want."

You'll also need to know how custom-home financing works. It's a two-part process: First you take out a construction loan that covers the costs of the land and building. These loans work like lines of credit: Money is doled out to you by your lender in periodic "draws" as you move through various phases of construction. These are variable-rate loans that typically fall within around a point of the prime rate, now 6% (down from 8.25% a year ago). Then, when you're ready to move into your finished home, you convert that loan into a permanent mortgage.

What if mortgage rates spike by the time you're done building? You can protect yourself by going with a so-called construction-to-perm loan instead. These plans allow you to get approved for both loans at once. This way you can lock in an attractive rate on your permanent mortgage.

If rates fall, you could still protect yourself. Some lenders offer a one-time "float down" provision on construction-to-perm loans. But you might have to pay a point or more in closing costs for this peace of mind.

Scout out the land

Almost every community, even in densely populated areas, has some vacant land for sale. But you're likely to get good deals where there's excess supply. This might take you into less developed areas.

While you can shop for these lots through any realtor's office - available parcels will show up on multiple-listing services - ask to work with a broker who has experience with land. Such a broker will help you evaluate a lot and decide how aggressively to bid on it.

You'll have two basic kinds of vacant land to choose from: raw land and finished lots zoned for residential construction that already have utility hookups.

Raw land might be cheaper, but it poses complications. For instance, the soil needs to be tested to confirm that it's hard enough to build on and that there's not a big chunk of rock where the foundation needs to go. You'll also need to make sure the parcel has been zoned for residential construction. These are things you should have an agent do for you - just make sure they agree to it in writing.

Pull together the design

For as little as \$1,000, you can buy an off-the-shelf plan available in books or on such sites as DreamHomeSource.com and eplans.com. While using a cookie-cutter mold to stamp out your custom home may not sound appealing, these Web sites offer hundreds or in some cases thousands of different design choices.

Want a two-story, four-bedroom, three-bath home between 2,000 and 3,000 square feet with a two-car garage? A recent search on eplans.com elicited 1,492 different plans. You can add to or tweak these off-the-shelf plans - on DreamHomeSource.com, for example, the cost of adding a fireplace to your living room design starts at \$90 and redoing a basic kitchen design plan starts at \$150.

For some, this still isn't enough. Take Jan and Myleen Sjodin, Texans who are building a 2,419-square-foot home 25 miles west of Austin. Jan, 35, and Myleen, 37, started with off-the-shelf plans. But after realizing their tastes were too specific - the couple want to build an environmentally-friendly house - they hired someone to design their "green" home.

It isn't cheap: The Sjodins have so far paid \$20,000 in fees (architectural costs vary and can eat up around 10% or more of expenses). But "our designer has been great at helping us figure out how to build cheaper without compromising quality," Myleen says.

For example, he suggested shifting some window placements, which will lower air-conditioning bills during hot Texas summers. He also recommended replacing a full-blown garage with a covered carport.

Whatever you choose, remember: You're not building just for your tastes; you'll probably sell at some point in the future. So keep resale in mind. For instance, while adding a home theater might increase the value of your house - who doesn't like a good movie? - an indoor basketball court might not have much appeal.

Assemble your team

The most important member of your construction team is your general contractor, who oversees the project and deals with the inevitable speed bumps that can fray nerves and lead to cost overruns (don't be surprised if your budget goes over by 10% - that's typical). Ask local lenders for people they've worked with or check with the National Association of Home Builders (nabh.org) for leads.

Even if you choose to be your own GC, seek professional guidance. Really. A consulting contractor can serve a useful function: helping you find subcontractors. Between framing carpenters, plumbing contractors, electricians, roofers, drywall installers and painters, you'll need all the assistance you can get.

Should you be your own general contractor?

You can reduce your construction costs by up to 25% if you act as your own general contractor and take responsibility for keeping the project on schedule - and on budget. But not everyone is cut out to be a GC. Consider these factors before you put on the hard hat:

It's a time-suck. You'll need to budget as much as 15 to 20 hours a week in the planning stage to interview work crews, price raw materials and make sure all the required permits are in place. Once construction starts, plan to work at least an hour or two a day - paying bills, scheduling work and occasionally visiting the site - a tough feat to pull off for anyone who already has a full-time job.

It takes some know-how. Maybe you know the difference between a flapper valve and a flush ball. Well, just because you can fix a toilet doesn't mean you're necessarily qualified to be an effective GC. True, project management is the biggest part of the job. But having some hands-on experience with home construction or renovation can help you vet and negotiate with qualified subcontractors.

It isn't a solo pursuit. Lenders often require newbie owner-builders to hire a general contracting consultant to watch your back. Even if you're not forced to hire one, it's a good idea. Consultants like those that can be hired through BuildMax or UBuildIt can teach you how to apply for permits, order the right materials and even hire work crews.

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