

# Home Building Guide



# New Construction Financing

Learn the ins and outs of loans for construction before diving into a new home build.

The terms, rates and even how the money arrives may surprise you, in particular if you've never built your own house. Here's what you need to know about new construction financing:

## DIFFERENT RATES

Construction loans necessarily have shorter lifespans than home mortgages, which typically stretch to 15 or 30 years. Properties must usually be built out within a year, and that includes securing an issued certificate of occupancy. Be prepared for a bit of sticker shock: The rates on these short-term loans are usually higher, since they present a higher risk for banks than with an existing property. Construction costs might skyrocket, or problems with contractors might create lengthy delays. The rates are also typically variable, meaning they rise and fall with the prime rate.

## DRAFT SCHEDULING

Once your financing is approved, the bank will set up a draft schedule that follows a pre-submitted construction timetable. Builders typically make interest-only payments while the property is being built. Be prepared for bank-sponsored inspections,



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which will be held in order to monitor progress and to ensure the draft schedule is properly aligned. There will also be one or more appraisals along the way. Expect anywhere from four to six visits throughout the course of construction.

## COVERED EXPENSES

These loans cover the cost of

land, labor, building materials and required permits. Furnishings aren't usually included, unlike permanent elements like landscaping or appliances. Best to overestimate your needs. The extra funds can go into a contingency reserve, in case unexpected costs arise. This additional money may also come in handy if you decide to make

select upgrades after construction is underway.

## GETTING STARTED

As with other forms of financing, construction loans require a good credit score, proof that you have sufficient outside income to keep up with payments, and a low debt ratio. There will be a cash down-payment requirement,

and lenders may require an upfront construction plan before evaluating your application. They sometimes also ask for an appraisal to estimate how much the completed property might be worth. So do your homework before contacting the bank. It will save you the hassle of having to make multiple visits with additional documentation.

# Finding the Right Spot

It's the one element of your home build that can't be altered later.

Of course, elements inside the home like furniture, fixtures and paint can be updated. Renovations can even correct any issues you may have with the layout in the future. But the plot where your home will sit will remain unchanged.

That's why this decision is so important. As you search, keep these key questions in mind:

## ENOUGH SPACE?

Some people crave wide-open spaces with acres of surrounding land. Are you looking to include an out building, like a workshop or garage? Are you interested in a pool or other water feature? Will you ever add on? Do you think you might want to take advantage of your green thumb and plant a personal garden? If you are planning on any of these amenities, or think you might one day want them, extra footage has to be built into any prospective plot of land. Of course, others prefer a lower-maintenance option with smaller yards. Ask yourself pointed questions before you begin looking in order to make the right choice for today – and tomorrow.

## CONVENIENT LOCATION

Location is also important for a variety of lifestyle reasons. You may want to stay close to family, or to eliminate



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a long daily commute to work. How close is your potential new build to emergency services? This may become more critically important if you plan to remain there into your golden years. Do you prefer easy access to stores, gas stations, arts institutions or restaurants

– or is enjoying the peace and quiet of country living important enough to accept a longer drive?

## FAMILY CONSIDERATIONS

If you're part of a growing family, you may need a larger house – or a house you can

expand upon. Depending on family members' interests and hobbies, you may need a more spacious outdoor area. You may also limit your search to selected areas in order to guarantee admission into certain schools because of their academic success, sports options

or other amenities. If you're planning on taking in older relatives, you may also need the room to add on. Empty nesters or older builders, on the other hand, may want less space in order to avoid spending so much time on yard work and general landscape upkeep.

# After You Get the Bids

It's easy to simply select the lowest number, but not always the right choice.

Home builders need to understand the entire estimate in order to make an informed decision. The biggest problem sometimes is that bidding follows a lengthy process – and impatience might be setting in.

Contractors are only hired after blueprints have been submitted and then approved by local officials. Architectural consultants evaluate, address and monitor key code and structures details. It all takes time, leaving future occupants frustrated.

It's important not to rush in order to get to the actual building phase more quickly. You might regret signing on for something without knowing exactly what's in the agreement. Here's what to look for when hiring a contractor:

## **DISCUSS STRATEGIES**

Every contractor uses a method in order to prepare an estimate. They may include square-foot pricing, assembly pricing and unit pricing. Square-foot pricing, as it sounds, is based on the size of the structure. The value of materials are usually averaged, however, making this a less accurate bid. Assembly pricing focuses on your specific design, pricing pre-selected components for more accuracy.

Unit pricing takes longer to compile, since it details all the materials and supplies that will be needed to complete the construction. If your bidder utilizes unit pricing, make sure they build in a contingency fund for overages and delays. Some contractors will leave these needed funds unmentioned in order to present a lower initial bid – setting you

up for the potential of a nasty financial surprise.

## **KEY DOCUMENTS**

Be sure to ask for estimates from several contractors, in order to compare and contrast pricing and approaches. They should all receive a document package including your blueprints and other building instructions, along with a sheet

specifying materials and appliances to be used. Be as detailed as possible, since this will help ensure a more accurate bid. Any assumptions they have to make could lead to inaccurate estimates – and unscheduled costs down the road.

## **BRING IN EXPERTS**

Once you have all of the bids

in hand, time to bring in the experts for a second opinion. After looking them all over carefully, consult with your builder and architect. Their review of the documents might turn up things you potentially missed. This is critically important, since the smallest miscalculation could lead to much larger problems as construction continues.



# Don't Forget the Landscaping

There are a variety of important choices to consider, all based on how you'll be using the space.

You may ultimately choose to handle these things yourself – or to bring in an expert. Either way, approaching the outside with the same level of imagination, planning and attention to detail as the inside will ensure that your new build is perfectly complemented.

## LIFESTYLE CHOICES

Do you want a spacious area that can serve as an outdoor living room? Or are you more interested in privacy? Do you want something more elaborate, or to create a lawn and garden that minimizes the environmental impacts? Landscaping, like building or decorating a new build, all comes down to personal needs and wants. Just remember to do your homework: If you are very busy or don't have a green thumb, avoid high-maintenance plantings that will require your attention.

Be aware of water and shade requirements, keeping in mind that you may not be able to create a strictly symmetrical look on both sides of your home because of your alignment with the sun. Many people are also adding specific elements to attract birds or pollinators, or to ward off wildlife that may want to



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munch on certain plants. The more thought and planning you put into all of this beforehand, the better suited your lawn will be to grow with you and your family.

## HIRING A PRO

For some, landscaping couldn't more different than home building. They're handy with a hammer, but stupefied

by a shovel. If that fits your description, consider hiring a professional to create the perfect setting for your new home.

Landscape architects are experts at designing outdoor spaces that are both beautiful and functional. That sometimes means going above and beyond lawns and gardens to construct one-of-a-kind drive-

ways, decks, water features or sidewalks. They can also endure that the plantings match your climate, expertise and level of commitment to upkeep.

## LITTLE EXTRAS

Keep in mind that the best landscaping goes beyond seeds and trowels.

Surround all of those new

plants – not to mention larger construction projects like water features or decks – with smart lighting choices, comfy and function outdoor furniture, and other personalized elements like a grill, fire pit or sports options.

Consider dedicating space to specific family activities, including a picture area or space to watch movies.

# Disaster Planning

The good news is, homes can be constructed to better withstand many of these dangers.

It may take a little research, but once you've mapped out the history of your area, you'll be prepared to select the appropriate materials and building approaches. Resilient design options can help structures withstand these dangers, or aid in quicker recovery.

When it's all said and done, you'll have a little more peace of mind when facing disasters such as storms, floods or wildfires.

## LOSING POWER

Losing power is the most typical challenge when facing storms, so it's no surprise that contractors and architects are focusing their efforts in this area. In some cases, that means installation of whole-house generators or solar systems that make use of backup batteries to keep homes up and running even when the electrical grid fails.

Resilient designs also take into account surrounding environmental elements like passing cooling or heating by positioning the home to take advantage of the sun or cooling sea breezes. There may be extra costs associated with some of these choices, but they're more than offset in times of emergency.

## WIND AND WATER

Home construction has come a long way when it comes to durability in the face of earthquakes and strengthening storms. Sturdier construction approaches, metal roofing and multi-planed glass make most homes essentially impenetrable. There have also been huge leaps in fire-resistant materials.

At the same time, contractors may be able to elevate your home through dirt, foundation or structural work in order to lift it out of a potential flood zone. They'll also develop plans to gather water and make it flow away from your home. It's important when building to take into account future development as well,

since that could lead to storm runoff issues where there had been none before.

## COST CONSIDERATIONS

One estimate placed about a third of housing in the U.S. at risk of natural disasters, or some 24 million homes. Protecting against these dangers can be pricy: Storm shut-

ters cost about \$600 per window, while things like backup generators and garage-door reinforcements run into the thousands.

But every dollar saved in construction can add up to \$4 or more in future costs when these natural emergencies strike, according to the New York Times.



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# Finding More Space

The extra room can be used for storage, entertaining or seeking shelter.

You'll have to study and plan before building starts, since not every terrain is right for certain construction add ons. Once you've decided on which type best fits your needs, however, you'll have found a handy way to add needed square footage.

## BASEMENTS

Depending on the terrain, a basement area may best utilize the available land. Basements are also a practical way to claim more space in cities where there isn't room to spread out. They're versatile areas that can be used to storage, living and entertaining, gyms and bedrooms. Go all out and create a guest suite downstairs, in particular if you are part of a large family or often have visiting friends. Just remember to discuss those plans in advance, since new plumbing is far more expensive to put in place once a construction project is complete. Rec rooms can begin as a child's playground before transitioning into an adult entertainment area for empty nesters.

Tired of paying extra for off-site storage space? Build in large closets or spacious bays, and bring all of your stuff back under one roof. Basements are also a safer place to wait out threatening storms. That's why



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one value report from Remodeling magazine said the return on investment for this smart and practical add on is a whopping 70 percent.

## CRAWL SPACES

Crawl spaces are meant to provide access to wiring, pipes and ductwork, but well-planned areas can also make

room for additional storage. Crawl spaces require less maintenance than basements, and also provide additional protection from flooding. But depending on the construction, you may have to take additional measures to keep the space free of mold, pests or fungal growth. Make sure when using a crawl space for

storage that there is still plenty of room for convenience, comfortable access to make routine checks of the home's critical features.

## OTHER SPACES

Underground storm shelters may be a necessity, depending on where your new build will be located. They're safer than

basements, if constructed properly. But as with basements and crawlspaces, it's far easier to add this feature into your plan during the construction process than it is to incorporate a storm shelter later on. Builders can also construct useful outbuildings to provide space for lawn equipment, a boat, crafting or other hobbies.

# Considering A Pool?

Most people think of the afternoons spent in the sun, forgetting what goes into construction and upkeep.

You might not get the return on investment you're hoping for either. So plan carefully before taking the plunge, making sure you have the space to build, the budget to complete and the willingness to work hard on maintenance.

They'll cost tens of thousands of dollars, even when installed during initial construction. Decking, water features, attached grills and furniture only ups the price tag. Here are other major considerations before deciding:

## ZONING AND RESTRICTIONS

In some cases, you may not be allowed to build. Request and review the most up-to-date building and neighborhood restrictions as well as local zoning laws. Qualified contractors should also be able to discuss the permitting process and any other potential hurdles before you get started. Those who are allowed to move forward with building a pool may still be subject to local rules about depth, fencing and proximity to utilities.

## YOUR LOCATION

You may also be restricted by your plot of land. Pools are best sunk into level yards, as



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huge additional expenses are associated with more challenging topography. Soil type may play a role in how the pool is constructed. Some yards simply aren't big enough for a pool. There still has to be room for the rest of your construction to continue, and those with children or pets may want to make sure they have more

green space to enjoy.

## MAINTENANCE AND EXPENSES

Beyond the initial capital outlay, pools require regular maintenance – and costs can add up. The chemicals needed to keep the water sparkling and clear can run more than \$100 a month, depending on

pool size, climate and how much you use it. The pool interior must also be maintained. Plaster finishes last 10 to 15 years, while vinyl liners must be replaced every 5 to 7.

Pumps, pipes and related equipment to transport and treat the water must also be maintained, and eventually replaced in time. Look for your

utility bill to tick up as these machines do their work. Consult with your insurance agent before building, since coverage may be quite expensive depending on the company. The good news is, some offer discounts based on the safety measures you add during the construction process.