

There is probably no activity you will ever be involved in that is as filled with misconceptions and misunderstandings as this business of designing and building a new home. People who do not understand the process pick up bits and pieces, pull them out of context, and create the new home horror stories that you hear passed around water coolers and across back fences throughout the country. These stories cause fear and anxiety and make the process of building your new home much harder than it should ever be.

These tales that strike fear into the hearts of new homeowners are what we call “myths and monsters.” They are myths because they are born of half-truths pulled out of context, and they are monsters because they will turn around and bite you. They will not only bite you financially, which alone can spell disaster, but they will also bite you emotionally. These monsters will interfere with your ability to make the logical decisions which ensure that your new home is designed and built the way you want it to be.

I am sure you have heard some of these stories before, and you will undoubtedly recognize several of the situations we are going to talk about in this chapter. Before I can tell you what to expect when you build your new home, we first need to discuss some of these myths and monsters so you will know what not to expect. This way we can start with a clean slate and clear away some of the confusion surrounding the construction of your new home. And, in the process, we will start to replace the **fear** of building your new home with something much more rewarding – the **EXCITEMENT OF BUILDING YOUR NEW HOME.**

MYTH #1:

I have a friend who moved into his new house and _____(fill in the blank).

- INSERT :**
- a) Door fell off the hinges
 - b) A/C or heat did not work
 - c) Plumbing backed up
 - d) Windows not open
 - e) Et cetera

Telling horror stories about new homes seems to have replaced baseball as our national pastime. I do not know if these tales are embellished to make them scarier or to make the speaker feel more victimized. But if you take the time to look at them logically, most of them become almost ridiculous.

For example, a fellow builder told me about a customer who repeatedly complained that the cabinet doors in his kitchen kept breaking off their hinges and the drawer guides broke whenever he opened them. The builder told his client that all the drawers and hinges (which had been installed correctly) had been checked on their walk-thru before they closed on the house. This type of cabinet hardware had been used for years without problems in thousands of homes throughout the nation. So there should have been absolutely no reason for the homeowner to have these problems.

During one of his frequent trips to replace the cabinet hardware, the serviceman left one of his tools underneath the counter and returned to the house later that evening to retrieve it. As he walked into the kitchen to find his screwdriver, the serviceman discovered the homeowner's 5-year-old son trying to reach a bag of cookies that his mother had put in one of the top cabinets. Finding that he could not reach them, the child had pulled out the kitchen

drawers and made himself a set of “stairs”. He had then walked up the stairs, grabbed the bag of cookies, and offered one to the serviceman if he promised “not to tell my mother.”

After laughing to himself for a moment, the serviceman showed the owner his son’s “stairs” and pointed out that there was no way that the cabinet drawer guides and hinges could withstand the weight of a 5-year-old child. The owner then realized that his cabinet troubles were no more than “child’s play” and began to enjoy his new home.

Another common story I hear is about people moving into their house and finding that the A/C or heating does not work. Whenever I hear this my first question is, “Why didn’t you check your air-conditioning when you did your walk-thru?” The whole purpose of you and your builder going through your home before the closing is to make sure it is ready to move into and everything is working. Flushing the toilets, opening windows and doors, and starting the heating and A/C unit are all part of making sure your house is ready to live in. If these things are not done, the walk-thru becomes a total waste of time. Small items that could easily have been corrected then become the cataclysmic myths and monsters that are embellished in courtrooms and cocktail parties across the land.

On the other hand, sometimes things do get missed even in the most thorough of walk-thrus. I remember one job we had in a subdivision several years ago where a family lived in their home three or four days and the plumbing backed up. We sent the plumber to repair the problem and he checked the line

all the way back to the sewer tap, where the house connected into the sewer system, and found nothing. He then called the utility company, and the service technician discovered that the sewer line going underneath the road had been crushed by a road grader when the road was paved. This crushed pipe was blocking the flow of sewage to the main line and not allowing it to leave the house. This unfortunate incident was not our fault, the plumber's fault, nor the utility company's fault. It was just a freak occurrence that sometimes happens and cannot be helped.

By the way, the above story has only happened to me once in more than 1,000 houses, making it a very infrequent problem, to say the least. In the time it took to find the problem, no damage was done to the house. There was only a minor inconvenience to the owner, service was restored the same day, and everyone lived happily ever after. With the right audience at the right cocktail party, this could become quite the horror story. I just hope if that ever happens, the owner has a lapse in memory and forgets who I am.

Statistically speaking, you are probably as likely to be involved in a car accident on the way to your closing as to have such a freak accident happen to you. A good builder will be conscientious, careful, and build a good product. If you do your homework and find a good builder and drive safely to the closing, everything should work out just fine.

MYTH #2:

The bigger the builder, the better the product.

I cannot tell you how many times I have been to a party and heard someone lament, “I bought from such-and-such builder, and I am having so many problems with my new house. I don’t understand it. When my wife and I came into town, we didn’t know anybody. So we bought from XYZ because they were the biggest in town. Now I wish I had never heard of them. Every time we call back with a problem, it takes a dozen phone calls to get anyone to come out, three or four trips before anything is done, and it has just been a real nightmare to get the least little problem taken care of.”

Situations like this happen because a lot of people make the mistake of thinking bigger equals better. They believe this not because of any psychological theories by Sigmund Freud, but because they think that builders who sell the most homes per year must be better than their smaller volume counterparts or they would not sell that many houses. Unfortunately, the total number of homes a builder sells per year has **ABSOLUTELY NOTHING** to do with the quality of his work.

Some of the finest homes in our area are built by builders who actually construct **less than 25** homes per year. And on the other hand, some larger volume builders also do an outstanding job of producing quality homes at a good price. Quality is not a question of volume. Quality is a question of training, experience, and the dedication of your builder to making sure that his work is of the highest quality possible.

Professional, competent supervision during the building of your new home is the only effective means of making sure that your home is built the way it should be. The ability of the people supervising the construction work is directly proportional to the quality of the work done on your new home. When you have highly trained, dedicated people with years of construction experience supervising the construction process, your new home will be a quality product and serve you well in the years to come. On the other hand, when you have poorly trained, uncaring people with little experience overseeing the building process, your new home will be a poor product and give you nothing but headaches and real horror stories to tell your friends.

Unfortunately, many building companies both large and small have a tendency to concentrate on volume rather than quality. These companies work with their sales and marketing teams more closely than they work with their design and quality control personnel. And although they may produce a large number of homes, they may also produce some of the poorer quality homes that you will occasionally find.

An additional reason why volume is always a secondary consideration when choosing your builder is the harsh reality that the average residential construction company in the United States goes bankrupt every **four to five years**^A. Because the life span of a construction company is so short, many people make the mistake of thinking that a small volume builder will not survive in the marketplace.

In reality, many of the builders you find that have been active in the local market for the longest period are smaller volume builders. They use a “hands on” management style, allowing them to control costs and run a more efficient operation by having less layers of management than larger-volume competitors. Small builders can also control their volume in such a way that they do not get caught with a large number of unsold homes during periods of economic decline. This small inventory of unsold homes allows smaller builders to weather the ups and downs of the economy, and sometimes makes them more stable than larger volume competitors.

Most large-volume home building companies are run like other large corporations in other industries. They are headed by a Chief Executive Officer or CEO who answers to the stockholders of the company. These stockholders are people who have invested their money in the company and want to see a profitable return on that investment. In order to maximize corporate profits, these large volume builders often increase their volume during an economic boom time to the point that when the market slows down or goes bust, they cannot slow down or stop building fast enough. As a result, the large builders wind up with a large inventory of homes that cannot be sold. And if this standing inventory of homes is too large, it can, and often does, force a company into bankruptcy.

Some people fall under the delusion that many of these large volume builders are so big that they cannot go under. You have only to investigate other similarly sized companies listed on the New York Stock Exchange that have

been in financial trouble over the last several years, particularly during the recession of 1990, to see the true story. One look will show you that there is no such thing as a company that is too big to get into financial trouble.

So once again, the number of homes a company builds per year has nothing to do with the quality of your home or whether your builder will still be in business several years down the road. It is, and will always be, the training, experience, and dedication of the supervisory personnel who actually build your new home that will determine the quality of your new home.

MYTH #3:

“I Don’t Believe the Mortgage Company/Banker/Developer Would Allow an Incompetent Builder to Build in This Community”

For years I thought that a mortgage company would want to do business only with builders who never went broke. I believed this because if I were running a mortgage company, the last thing I would want is to get stuck finishing the products of a bankrupt builder and have to unload them to recoup my investment. I would put my company’s money in builders whom I knew would not leave me holding the bag and whom my customers could count on if any problems came up. I thought this way for a number of years before I realized that economics makes some mortgage companies think exactly the opposite way.

The key thing a mortgage company looks for in a builder is not necessarily the quality of his products, but the number of homes he builds. Volume is the key, not quality. You see, a mortgage loan officer gets paid by the number of loans she makes – the greater the number of loans, the more she gets paid. If

she gets 100 houses per year from a builder, and the builder goes broke at the end of five years, the mortgage company may wind up having to complete ten or twenty houses. But during those five years the builder was in business, the mortgage company handled over 500 mortgage loans. During those same five years a small volume builder, who never goes broke and builds twenty houses per year, may leave the mortgage company with no houses to finish, but he only gives them 100 loans to process. And since the mortgage company would rather be paid for 500 loans than 100 loans, they will often prefer to do business with the larger volume builder.

The same kind of high volume thinking also occurs from a banker's point of view. Like mortgage loan officers, bankers also get paid by the volume of construction loans. The more loans they close, the more fees they collect, and the more money they make. Therefore, bankers may be more concerned with volume than the quality of their builders' homes.

Developers also want in on the high volume action because the developer gets paid by the number of lots he sells in a given area. The more lots he sells, the more money he makes. And the faster he can sell his lots, the faster he can repay his loan from the bank for developing the land, and the less interest on the loan he has to pay. Since the developer gets paid regardless of the quality of the homes built in his subdivision, he is eager to do business with big volume builders, no matter what kind of buildings they throw together.

A perfect example of this happened about a year ago when I called a local land developer and asked about his new subdivision. The developer said he had

sold all his lots to a local builder who had a reputation for building small, low income, low quality housing. When I asked the developer why, he simply replied, “Because I know he can “take down” (buy) the lots fast.” And who could argue with logic like that? With an acquisition and development loan (A&D Loan)^B of over \$1,000,000 and a high interest rate to pay, fast sales for this developer were not only desirable, they were essential.

MYTH #4:

“They Don’t Build’em Like They Used To”

From the time I was a little kid, all I ever heard people say when something new came along was, “They don’t build’em like they used to.” For some reason, most people believe that if a building has been around a long time, it is better than what is built today. For those people I have a simple response; “Take a closer look.”

If you do not agree, then think about the gigantic stone castles of Europe that were built during the Middle Ages. These massive structures have been standing for well over 500 years, so they must be better than what is being built today, right? Well, consider that when they were built there were no modern building codes to govern their design. Without these codes to guide them, ancient builders designed in such mistakes as stairs with no railings and step risers and treads of such length that visitors tripped and fell when they used them. And when you take into account the lack of heat, indoor plumbing, ventilation, and insulation, you can easily see that living in these monstrosities would be intolerable. Cold in winter and hot in summer, these dark, musty,

dreary places allowed residents to take up new wintertime activities such as huddling around the fire to keep from freezing to death and watching water seep through their six-foot thick stone masonry walls.

Is this a better way to live than in a modern, climate controlled home? I personally do not think so. But if you are one of those who thinks older buildings are always better, please feel free to move right into one. But do not expect many of your friends or family to stay long. (Although with some family members, this may be something you want to look into.)

MYTH #5:

“How Much Do You Charge Per Square Foot To Build A House?”

This question has caused more home buyers to part with their hard-earned savings than any other question I have ever heard. And the reason this question is so dangerous to a new homebuyer is because most people:

- a) Do not understand how to compare the cost of new homes, or
- b) Do not understand how builders determine the price of a new home

For some reason, many people have the preconceived notion that somewhere in the universe there is a mystical price per square foot that all builders in the world know and use to price their model homes. Therefore, if you can take the sales price of a builder’s model home and divide it by its respective square footage to come up with a price per square foot, you can use this price to drive down the price of another builder’s model across town. After using this procedure with several builders, you will eventually bring the price down to where you get the lowest price per square foot and the best value for your money.

This sounds great in theory. Unfortunately, when you try to negotiate a bargain using this price per square foot method out in the real world, chances are the only thing you will wind up negotiating is a complete mess.

Comparing two houses by their cost per square foot is like comparing two cars by their cost per tire. If you have a small economy car and compare it with a large luxury model, both of them have four tires. But when you divide their sale prices by the number of tires (4 for each car), the price per tire varies significantly.

The same holds true for a house. If you have a three-story Tudor mansion with marble floors and mahogany paneled walls, it will cost more when you divide the sales price by its square footage than a less imposing starter home. When you consider the workmanship and the features that come with each house, the three-story mansion is obviously the place you would rather live. But when you compare to two houses only by their price per square foot, it seems like the simpler, less imposing structure is the one you would rather call home.

I know some of you are thinking, “But these are such extremely different houses; of course it doesn’t work. It only works when the houses are similar to each other.” Well, the truth is that the cost per square foot method fails here too for precisely the same reason. You see, I can take the exact same house with the exact same floorplan, the exact same lot, and the exact same square footage and keep adding options to one house until I have **doubled** the price of the home **without changing the square footage at all.**

The list of items that can change your price per square foot without changing the square footage could fill a book in itself. Two of the more obvious of these changes is whether or not the sales price includes the price of the homesite and the closing costs. Also, the allowances^C which the builder has included can be drastically different, making the sales price of one home much less than the other. For example, in our standard homes up to 2000 square feet (SF), the owner is usually given a lighting fixture allowance of \$800. This means that the owner can spend up to \$800 on lighting fixtures for his new home. If he spends less than the \$800, he is refunded the difference; if he spends more than \$800, he pays the difference.

One allowance which can make a monumental difference in the sale price of your home is landscaping. The landscaping allowance for a given home can vary anywhere from 300-400%, depending on how much landscaping you include with your sales price. Do you sod the entire front and back yard, or do you sod the front yard and sprig the back? How much shrubbery do you include? On a typical starter home, you can get by for as little as \$100, while on a more expensive home, the shrubbery can easily cost anywhere from \$5,000-10,000. Sprinkler systems, rock gardens, elaborate fishing ponds, and even a swimming pool can be included in a landscaping allowance. These extra goodies can make the sales price of your home shoot up anywhere from \$1,000 to \$40,000 or \$50,000 or more without changing the square footage of your home one bit.

When you start looking at the interior of your home, the finish flooring and appliance allowances can change your total sales price by as much as **ten**

percent by themselves. Ceramic tile flooring will usually run about four times more than carpet or vinyl flooring for the same area. Vinyl flooring can vary in grade or quality from inexpensive to expensive grade that costs four to five times as much as the vinyl which would be included in a starter home.

Cabinets are another allowance that can make your sale price shoot through the roof. Kitchen cabinets can vary as much as 300-400% in price, depending on the quality and the number of cabinets you include. For example, you may include an island or a counter bar – items which may add \$1,000-1,500 or more to the price of your home without affecting your square footage. And when you throw in such bath fixtures as extra sinks and vanities, whirlpool tubs, and maybe even an extra bath or ½ bath, you drastically change the sales price without augmenting the square footage.

And while we are on the subject of the home interior, you must include the electrical system and the countless options that can be included there. Does your system have a higher rated electrical service^D so that it can handle more current being drawn through your home? If it does, then you can start adding electrical features such as: dedicated circuits^E for computers and microwaves, extra lighting, extra electrical outlets, extra freezers and refrigerators, and countless other costly electrical conveniences that make your life more comfortable.

As you can see from this short list of items, it is very easy to either double the price per square foot or cut it in half from one identical home to another. When you look only at the price per square foot without comparing all of the

items included in a home, you have much less information than you need to make an informed decision. Therefore, to effectively compare the price of two similar models built by two different builders, you must look at all of the features and allowances each builder has included in their sales price and base your comparison on the total package.

At this point, some of you are probably asking yourselves, “If the price per square foot method is so ineffective, then why is it such a popularly-held belief?” The method of pricing houses per square foot is a case in point where people who do not understand a process pull something out of context and distort its meaning. The square foot pricing method is often used by statisticians to compare the prices on homes in different regions of a certain state or across the country. For example, a statistician might say that homes in Santa Barbara, California, are selling for an average of \$195 per square foot while homes in Jacksonville, Florida, are selling for an average of \$55 per square foot. Therefore, you can expect a typical home in Jacksonville to cost one-third to one-quarter the price of a similar home in Santa Barbara.

In addition to statisticians, appraisers also use the price per square foot method to establish the most reasonable market value for a proposed new home. However, they do not just arbitrarily compare the price per square foot on homes that have recently sold. An appraiser has a tremendous amount of training in how to compare a home with others that are similar but not identical. He has a set procedure for comparing the differences in these homes and establishing values for them so that a reasonable market value can be obtained. First, the

appraiser acquires a set of plans for the home he is appraising (the subject property), determines the square footage, how the home is constructed (brick, concrete block, wood frame, etc), and finds any other features the home contains which will add to its value. He will then find comparable homes in the area (comps) which have sold recently, and will research those homes thoroughly. The appraiser will start his research in the public records and find the sales price of his comp homes. Then he will call the sellers and/or the builder and ask them a number of questions about these comp homes. Often the appraiser will even get a copy of the comparable homes' plan and determine some of the features the comp has that add to its value. Once the appraiser has a list of these items, he will go through a long, elaborate process of assigning values to each feature and adding or subtracting these values to and from the comp home to make it identical to the subject property. The appraiser then takes this adjusted value and calculates a price per square foot to use in his evaluation of the subject property.

In most cases, a person who is not trained to do appraisal work simply does not have the information necessary to adjust these values and come up with an accurate cost per square foot. Therefore, this is not an accurate method for the lay person who is trying to figure out what they can afford because they simply do not have the training, experience, or data necessary to use the price per square foot process correctly.

Instead of taking the sales price of new homes and dividing by their respective square footages, it is far more effective and much easier to simply

take homes which are within a hundred or so square feet of each other in comparable areas of town and compare them based on their sales price and included features. Take a notepad with you to each home and make a list of the items included and the sales price. After reviewing your list, you may be surprised to find that a 1,900 square foot house on a better lot with a better floorplan and nicer amenities, such as upgraded appliances and higher ceilings, is a much better buy than a 2,000 square foot house with fewer of these amenities.

So when you compare similar homes, if you worry less about square footage and concentrate more on the floor plan, room sizes, and what is included with the sales price, you will have a much greater chance of finding the best home for you and your family.

MYTH #6:

“I’ll check the job and make sure it goes right”

A couple of months ago I was having lunch with my banker, and she was laughing about a local builder who had to resubmit some paperwork to her mortgage department. It seemed that when the builder poured the concrete slab on a custom home, he was off with the slab measurements by more than two feet (1/2” is the maximum tolerance allowed on most jobs, including ours). When the error was discovered a week later, the builder corrected his mistake by hacking off part of the slab and called in a structural engineer to design extra footers^F so the slab would still support the house. When the owner drove up and saw the jagged edge of the slab where finished concrete had been the day before, he

forced the builder to start his house over again on a neighboring lot and resubmit the mortgage paperwork to the bank. The builder then finished the house and resold it to another family who had not seen the broken slab supporting their new home.

When I heard this, my first reaction was, “If my builder had screwed up that much on the foundation, what else would he screw up that I didn’t know about?” As a potential homeowner, you have the right to assume that someone presenting themselves as a builder knows what they are doing and will not allow potentially large mistakes like this to happen. Although such mistakes are rare, you as a homeowner cannot and should not be expected to catch your builder’s foul-ups. You are not the job site superintendent, and chances are you will not be out there everyday checking the job. And even when you do make it out to see your house, how will you know what to look for? Do you know how to tell a big construction problem from something that is not important? Very few homeowners can. Most people do not have the training and experience to know what to look for any more than I could do brain surgery. Your builder is the construction expert; therefore, you should not have to be an expert in construction yourself. If you try to supervise your home without having adequate construction training and experience, you will only create problems, not alleviate them.

Every time I hear someone say they can supervise the job themselves, I think about a home I built for a young couple many years ago. The husband was a Navy officer and the wife was an operating room nurse – very intelligent

people, who had carefully compared prices and chose us to build their home. Things went well during construction, and when it came time for the final walk-thru the husband was sent on deployment with the Navy. Therefore, I did the walk-thru with only the wife. After I gave her my standard speech of how we were going to go through the home room by room and check everything, she told me, “This is our first home, and I have never done a walk-thru before. So I’ll have to rely on you to explain what we need to do.”

Sensing her apprehension, I tried to make her laugh by saying, “You know, a long time ago I realized something about the medical profession.”

“What’s that?” she asked.

“This germ theory business you guys have been promoting all these years is not real at all. It is just something you invented to keep the lay man out of the operating room.”

She laughed and quickly retorted, “You know, you just may be right. But it’s no different than builders who have their superintendents chew tobacco so their buyers will be repulsed and not ask too many questions.”

“Yeah, but your method actually works,” I countered.

Unfortunately, tobacco-chewing superintendents are not nearly as effective as the germ theory in keeping the layman out of our construction operating room. Therefore, you, as our client, simply must understand that the reason you are hiring a builder is because you do not have the knowledge to build your home yourself and do not have time to learn. If you could do it yourself, you would not need a builder. You could instead pocket the money you

are giving him to oversee your new home's construction and spend it on something else. If you could not think of anything, I am sure you could find a number of friends to offer a helping hand. After all, what are friends for?

Instead of supervising the job and making sure the work goes according to schedule, your primary concern should be picking a builder who knows what he is doing and will put supervisory personnel on the job who will make sure your home is built properly. Now this is not to say that if you have a question you should not ask it. Our most informed buyers have many questions during the course of construction. Therefore, if something comes up that you need to ask your builder, pick up the phone and ask him about whatever you saw that may be a source of concern. And remember, the main thing you should do when you ask your builder a question is **listen** to the answer he gives you. Too many times people have the tendency to listen solely to friends and relatives who have no training in construction. These people are well-meaning, but tend to fill buyers' heads with those famous builder horror stories we mentioned earlier. Our clients then come to us scared to death and filled with preconceived ideas on what the answers to their questions should be. And when we do not give them the answers they expect to hear, their fear is magnified and reinforced. This fear does nothing but cause needless friction between you and your builder and hamper your builder's ability to make sure that your home is built the way it should be.

So when you have a question, ask your builder. And if you have a follow-up question, ask him that question. But make sure that you **listen** to the answer

he gives you, and if it is not the answer you were expecting, ask him to explain his answer in greater detail. Most builders, including myself, would rather take an extra ten or twenty minutes out of their busy schedules to make sure you understand what is happening than let a misconception fester to the point where it becomes a problem. And if you have done a proper job selecting your builder, the answers you get from him will be truthful and correct and leave you with no lingering doubts about the quality of your new home.

MYTH #7:

“I’ll serve as my own builder and subcontract the work out and save at least a third”

I wish that I had made as much profit over the years as people think I did, because then I could have stopped working twenty years ago. Most people seem to think that a builder will make at least a third on each house he builds. If that were true, then on a \$200,000 house the builder would earn a little over \$65,000. Unfortunately, builders usually make less than that – much less. On average a residential builder usually makes about twelve to eighteen percent gross profit on each home he builds. Then once company overhead is subtracted for insurance, employee salaries, equipment, taxes, and other costs of doing business, the builder might end up keeping about five to seven percent^G of that profit if he has a good year. And if he has a bad year, the builder gets to keep nothing but the hope of better years to come. These low profit margins are the reason why a builder has to be a good manager if he expects to keep food on the table.

One of the main ingredients in being a good construction manager is knowing which subcontractors to hire and what the price of their specialty work should be. When choosing a subcontractor, a low price is not necessarily the most important factor to consider. A good subcontractor must have the ability and manpower to do his job, and he must be financially stable so he will still be in business if you have a problem. There is nothing worse for the homeowner and the builder than to have something like an air-conditioning unit installed in a home and find a month later that the system was installed improperly by a subcontractor who has since left town. Because when the subcontractor is not around to take care of a problem like this, the owner and the builder are left holding what can sometimes be a very heavy bag.

Our plumber came in the other day and told us about a guy he hired to start working for him and fired three days later. He canned the guy because he was so efficient – he did more damage in one day than his other men could fix in three. When the worker defended himself by saying, “I can get this right if I have a little more time,” the plumber replied, “Son, I’ll run out of money before you run out of time. And I can’t afford it.”

Just like our plumber, builders run into “efficient” subcontractors that waste more time and money than we ever thought possible. This is what we repeatedly try to relate to people who have no construction experience but are convinced they can build their own house. All you have to do is pick one wrong subcontractor and he can wipe out all the money you save in a house by doing the work yourself.

If you are able to build a perfect home yourself, you can reasonably expect to save about \$1,000 on each \$10,000 it costs to build your house. This translates into about \$20,000 in savings on a \$200,000 house. When you consider that there are at least twenty or more subcontractors involved in the building of your new house, you can see that there is a great potential for one or more of them to make a costly mistake. And when you consider the fact that in over thirty years and 1,000 houses I have **never** seen a **perfect** home, the idea of building your own should make even the biggest Scrooge run for the nearest qualified contractor.

MYTH #8:

“If I buy my own lot and have the builder build on it, I will save money.”

Over the years, we have constructed many homes both in our own subdivisions and off-site on clients' lots. In almost every case, it cost the homeowner more to build his home on land he already owned. This was not because I felt like charging him more money. It was because there are extra expenses that go along with building on your own lot.

These extra expenses can include well and septic tank installation instead of water and sewer hook-up, extra landscaping and fill dirt, and extra engineering costs that can come from the makeup of the subsoil or the topography of the land. Also, the builder is usually set up to construct multiple houses in a subdivision instead of doing only one on your lot. This means that labor and material charges are less for him to build in a subdivision, and he will charge you

less if you build there. This is why in most cases you can actually save money if you build in a subdivision instead of on your own individual lot.

MYTH #9:

_____ **WILL PROTECT ME.**

- INSERT:**
- a) Building inspector**
 - b) Veterans Administration (VA)**
 - c) Mortgage Company**
 - d) Realtor®**
 - e) Lawyer**
 - f) Deed Restrictions**

Several years ago I did a routine check on a concrete slab that was being prepared for one of our homes. When I saw how deep the bearing footings^H had been dug, I found that instead of being twelve inches deep like they were supposed to be, the footings had been dug maybe one or two inches. When I asked one of the men preparing the slab why they were so shallow he replied, “The inspector said it was OK.” Since my company name was hanging on the sign in front of the job, I gave him a choice: he could either dig the footings as deep as I wanted them, or he could have the inspector sign his paycheck. The footings were dug to the proper depth.

In most jurisdictions, the building inspection department is composed of a chief building official who has field inspectors under him to make sure that new buildings meet all the building codes. Most of these inspectors do a good job and should be commended for the work they do. However, given the thousands of pieces and parts of a house and the encyclopedic volumes of codes that apply to new construction, it is impossible for an inspector to spend the extremely short amount of time he spends on the job and find every problem that might exist.

Inevitably, things such as the footings mentioned above may slip through the cracks without adequate builder supervision.

Any professional building inspector will tell you that no amount of inspection can replace a qualified superintendent working with qualified tradesmen on the job. A building inspector serves as a backup to double check a job, not as the primary construction supervisor. He simply does not have the time to watch every nail driven and every brick laid. Therefore, the building inspector helps the supervisor all he can by trying to catch what the supervisor may have overlooked and make the job run as smoothly as possible. He and the superintendent work as a team, because no building inspector can be expected to do this tough job alone. Only by working together can a building inspector and a qualified superintendent make sure your home will stand the test of time.

The same thing holds true for a Realtor® or site agent. These people also do not have time to supervise every construction activity that happens with your home. Not only are they on the job site less than a building inspector, but they usually do not have the same in-depth construction background as an inspector. Realtors® and site agents are trained to locate property, keep up with marketing trends, know the market value of property, know which areas are growing and declining, and how to obtain financing for home mortgages. These people know their jobs and do them well; however, their job description does not include supervising the construction of your home. Therefore, you still must have a qualified superintendent overseeing the work.

Some veterans believe that the Veterans Administration (VA) from which they can obtain mortgages will protect and ensure the quality of their new home. While it is true that VA sets certain standards of compliance for new homes, most VA inspectors today no longer inspect your home while it is under construction to make sure these codes are being met. Instead, they rely on local building departments and only do a final inspection after the house is complete and ready for move-in. During this final inspection, the structure is covered inside and out with finishing material such as stucco, gypsum wall board, or brick. Therefore, the inspector cannot see the structural system. And if he cannot see the structure, how can he possibly make sure that your home meets all the code requirements?

I know that by this point some of you are asking, “What about the pages and pages of deed restrictions that govern my new home community?” Well, I am glad you brought that up because these can be misleading. The truth about deed restrictions is that they are sometimes enforced by - **NOBODY**. In theory, they are supposed to be enforced by the developer while the subdivision is being built. Then when all the homes in the subdivision are completed, this chore is handed over to the local Homeowners’ Association.

The Homeowners’ Association is made up of all the homeowners in a community who theoretically make sure the deed restrictions are met by all the residents of the area. In reality, these organizations often end up with little power and only enforce the rules sporadically. Usually the offender has to be taken to court and the association has to pay expensive legal fees. Since many

associations simply do not have this kind of money, the rules are often difficult, if not impossible to enforce.

During the recession of 1990, the developer of a local high-end subdivision was facing bankruptcy. Ordinarily this developer was very strict on enforcing deed restrictions and maintaining the integrity of his finished product. But as you can imagine, impending bankruptcy is one of the greatest behavior modifiers known to man. It can make someone do things they would not normally do. And in this case, it made the developer sell a group of lots at a greatly reduced price to a builder who specialized in lower-cost, tract-type housing.

As you can probably guess, this caused quite an uproar in the area. The homeowners felt that when this new builder came into their community, the quality of new homes being built would decline and many of the restrictions governing them would simply be forgotten. Well, the truth is that when the builder moved into the area, that is exactly what happened. And unfortunately, there was very little anyone could do about it.

For a while, the cost of new homes being built in the area were substantially less than what had been built at the start of the development. The look of the area did suffer some decline, and those who decided to sell their homes suffered a tremendous loss of equity in their investment. However, those that stayed and decided to ride out the storm were rewarded when the market began to recover and the subdivision reverted to higher-end housing. Their

property values went up, but they never quite recovered from the weight of the lower-end houses that drag them down to this day.

As a last resort, many people figure that their lawyer will take care of them through anything – including the construction of their new home. Unfortunately, this is another of those misconceptions that cause people to have a false sense of security when their home is being constructed. A lawyer is trained to be familiar with the laws that govern the people in the state where she practices. Nowhere in her training does a lawyer learn how to construct a building or what to look for when she steps onto a construction site. Therefore, your lawyer will not be able to ensure that your builder is doing his job correctly when he begins building your new home.

The truth is that a lawyer does perform many extremely important functions during the construction of a new home. These functions include the following:

- checking the title
- writing and reviewing real estate contracts
- closing the construction loan
- checking liens against the property
- recording the deed
- reviewing and recording the mortgage
- generally insuring that their clients' legal rights are protected

Since the laws vary from state to state, the services of a lawyer are very worthwhile, even if you are familiar with real estate contracts.

Some people feel reluctant to hire a lawyer because they want to save money. What they do not realize is many thousands of dollars would be saved if they allowed a lawyer to look over their contracts before entering into them. A lawyer is available to solve problems – not create problems. Many times over the years we have provided blank copies of our contracts to buyers so that their lawyers could look them over before they were signed. In addition, I have also met with several clients and their attorneys to go over portions of our contract and work out any provisions which may have needed to be altered for that particular client. No legitimate builder would ever balk at having an attorney go over his contract before it is signed. Instead, a legitimate builder would prefer to have a lawyer ask him questions so that any potential misconceptions can be cleared up from the outset.

Protecting your rights under the law is what you are paying your lawyer to do and what you should expect from her. However, a lawyer is not trained in construction and therefore she will not supervise the construction of your new home. That is the job of your builder. So make sure your builder is doing his job by having a qualified superintendent overseeing your home's construction. Because if your builder is doing his job properly, you will not have to hope that someone is ensuring the quality of your new home. You will know that quality is included with your sales price.

MYTH #10:

“I’ll sue! I’ll sue!” (But will you collect?)

Over the years, I have had a few people who thought the quality of a building was directly proportional to the builders’ fear of lawsuits. The idea that someone actually thinks that they can frighten a person into doing their best work seems ludicrous to me. I have always found that such a climate actually fosters the exact opposite – a desire to do the least possible to get through with the job and get away quickly. Besides, the truth is that if the construction of a structure is bad enough to sue over, and you go through the long, windy process of a lawsuit and wind up with a judgement against the builder, the chances are that by then the builder is broke, and any assets he may have held have long since disappeared. And by the time you get a judgement against him, several others have too, and the builder and any money he may have had have vanished into thin air.

I knew one material supplier in town who had so many liens against local builders for failure to pay their bills that he wallpapered the back of his office with them. After trying to collect for months and not getting anything but a big legal fee for his efforts, he decided to stick them up on his wall as a conversation piece. That is until his wife decided they did not match the rest of the office décor and forced him to take them down.

It should never come to this. If you get to the point that you have to threaten your builder with a lawsuit, your relationship has probably deteriorated so much that neither of you will ever be satisfied with the finished product.

Having served as an expert witness in several lawsuits where owners were suing their builders, I can tell you firsthand that very little good ever comes from these types of proceedings. Coming between a builder and an owner engaged in a lawsuit is like trying to separate two Dobermans in a dogfight – one of them is going to bite you when you are not looking. Usually when the building process has degraded to the point of a lawsuit, the two parties are looking more for blood than justice.

What has always fascinated me about these lawsuits is the fact that all of my credentials and all my years of experience matter most to someone who wants me to testify in their behalf against another builder. When people are trying to find a builder to construct their home, my credentials and experience are usually given no more than a casual glance. But when it comes to suing the builder they picked to build their home, all of a sudden my qualifications are very important to them. If only they had thought to do some research and find a qualified, experienced builder when they were building their home, they would never have had to convince me to testify. The job would have been done correctly in the first place. And isn't it easier to make sure your home is done right from the start? The court system in our country is already overcrowded with frivolous lawsuits. Why go through the process when you can so easily avoid it with a little advanced preparation?

So, if you find yourself in a lawsuit with your builder, then you have made a mistake somewhere and did not follow all of the advice in this book. So please,

The American Dream/The American Nightmare
Chapter 1 – Myths & Monsters

read carefully because there is a lot more to learn before you start designing and building your dream home.

Highlights of Chapter 1

- ◆ Most new home horror stories you hear are almost ridiculous when looked at logically.
- ◆ The total number of homes your builder sells per year has **ABSOLUTELY NOTHING** to do with the quality of his work.
- ◆ Professional, trained, competent, and dedicated supervisory personnel directly overseeing your home's construction is the **only** way to guarantee your home will be well-built.
- ◆ Mortgage companies, bankers, and real estate developers are more concerned with the number of homes a builder constructs than the quality of his work. Because the more homes a builder builds, the more money they make.
- ◆ Modern, climate-controlled homes are better than older homes because they have modern building codes to govern their design and construction.
- ◆ Comparison shopping for homes should **NEVER** be done by comparing their price per square foot. Instead, take similar homes within 100 square feet of each other in comparable areas of town and compare them by their sales prices and included features.
- ◆ Instead of supervising the job, your primary concern as a homebuyer is picking a builder who knows what he is doing and will place competent supervisory personnel in charge of your home's construction.

- ◆ If something comes up that you need to ask your builder, pick up the phone and ask him. **Listen** to the answer he gives you and ask him to elaborate if his answer is not what you expected.
- ◆ Building your home yourself, you will be able to save money if everything is built **perfectly**. However, keep in mind that in over 30 years and 1,000 homes I have **never** seen a perfect home (and never heard of one either).
- ◆ Building on your own lot will cost more, not less, than building in a subdivision.
- ◆ Your local building inspectors, Veterans Administration, mortgage company, Realtor®, lawyer, and deed restrictions cannot ensure the quality of your home because they are not overseeing your home's construction everyday.
- ◆ Research local builders and their **qualifications** carefully before choosing one to construct your new home. If you do not and end up suing your builder, you will probably not receive any money since others will most likely have received judgements against him before you.

^A Look up this fact at NAHB.

^B A&D Loan – the money a developer borrows from the bank to develop land. He later repays this loan with interest from the sale of lots in his development.

^C Allowances- a specific amount of money set aside in a construction contract for certain categories of construction items (i.e. lighting fixtures, appliances, landscaping, etc)

^D electrical service - the amount of amps which can be drawn through your home's circuit breaker panel without causing an electrical short. The higher your home's panel amp rating, the more electrical items you can run off that panel without causing an electrical problem.

^E dedicated circuit – electrical outlet which is the sole outlet on an electrical breaker in your electrical panel box. Allows you to plug in an appliance which takes up a lot of power without fear of tripping your electrical breaker.

^F footers – deepened sections of concrete with reinforcing steel in a concrete slab. Used to support heavy loads and structural walls to allow the building to support itself.

^G Builder magazine, May 1998, “Dream Market Has Builders Wondering: How Much Longer?” pages 88,128.

^H Bearing footings – see concrete footers.