

## SPEC



## CUSTOM



Photos courtesy of Riverland Homes

# COUNT YOUR NAILS

## Moving from Spec to Custom Homebuilding

By Sarah Johnson

**H**ere's the dream: The land is yours and the design is yours. There's no interference from a client—you build the house to suit yourself. A real estate agent sells the house, and you pocket the profit. Unfortunately, the reality of building spec homes is usually harsher. The price of land, the delay and expense of getting permits, material costs, shifts in the market and other factors can make building spec homes a nightmare. To minimize risk, many spec builders are moving to the custom home market—and finding themselves in a different world.

For one thing, custom homebuilders work closely with clients. "Having a good relationship with the homeowner is the key to the process," says Terry F. Johnson, a residential designer and former builder in Monmouth, OR. Building custom homes requires "not only custom designs, but custom relationships."

In contrast, spec building is done "in a vacuum, separate from the client," says John Chlopek of Riverland Homes in Portland. While Chlopek describes custom building as a "positive experience," not everyone agrees; one spec builder described the

downside of custom work as "having to put up with the client for several months." Johnson agrees that "the autonomy you've known is out the window" when you begin building custom homes. "The homeowner, justifiably, wants to know what's going on every step of the way," he says.

With the custom home client, "It's the rule, not the exception, that changes are involved," says Don Grubb of Buckeye Construction in Bend, OR. "This is especially true of the \$250,000-plus market, where people want truly customized homes."

One major advantage of custom home building is that the client buys the land, and pays all development and engineering costs. "The client can afford to pay 30% to 40% more for the land than I can," says Chlopek.

In some areas, the cost of land can

consume the profits of spec building. "You cannot build a spec home on a piece of land that's too expensive," says Chlopek, yet spec homes "have to have a great location." Other property-related costs increase the risk for spec homebuilders. Even if a builder finds land that's reasonably priced, the city and county planning departments may place extensive restrictions on it. The resulting delays, says Chlopek, can take years: "Suddenly, you're struggling to make a profit."

The greatest advantage is the shift of risk from the builder to the client. "With spec homes, your money is hanging out there," says Don Grubb. "With custom homes, someone else's money is hanging out." Chlopek agrees: "Custom homes have almost zero risk," he says. "All I have to do is perform."

However, custom builders have to locate their own clients. "With spec homes, a realtor sells the house," says Johnson. "With custom homes, you have to sell yourself." This requires a different approach to marketing and advertising, as well as strong sales skills (see sidebar).

Building custom homes is not for everyone, but in a buyer's market it may be the best option. —**NWB**



## TIPS FOR SPEC BUILDING

When building spec homes, "You can't spend money because you want to," says John Chlopek of Riverland Homes. "You spend it because you can get it back."

Portland-based builder Richard Swart learned this lesson the hard way. Swart built his last spec home in Gresham, OR and figures he lost 10% on the sale of the house. What went wrong? "I built the house for me, and you can't do that," says Swart. For example, he "put everything" into the house: top-of-the-line materials, excessive labor and extras (including a bonus room). At this point, Swart says if he ever builds another spec house, "I will certainly approach it differently."

- Know the limit of what you can afford to build, and stick to it.
- Find a neighborhood that's not declining and that fits what you can afford to build. Look for value in the neighborhood, and buy well in advance.
- Know the process and costs of permits in the area.
- Don't overbuild in an area. Stay well under the price of the most expensive homes.
- While building, accept plan variations as long as they're not structural. "If it's related to your design and it's just your pride at stake, let it go," says Swart.



- Don't show the plans for the spec house to the purchaser. If the plans show something that wasn't built, the purchaser may want restitution.
- A "released" downpayment from the sale of a spec home can and should pay for any upgrades the new homeowner may ask for via change orders.
- Don't overdo it; remember that you're in this to make money. "Put your pride into the house that you're going to build for yourself," says Swart.

—SJ

## TIPS FOR CUSTOM BUILDING

"Contractors don't want to build custom because it's a headache," says Richard Swart. For one thing, "The homeowner makes changes and assumes there will be no cost change. But every action costs money," he says. "You have to count your nails."

- Prepare a standard contract with assistance from an attorney. The contract should state that any changes causing time or material costs will be charged to the customer. And it should be stated how any additional costs are calculated so the client doesn't feel that he or she is being "upcharged" for change orders.
- Include in your contract that clients must pay the costs of engineering and permits, and that changes could result in additional charges to these items, too.
- Review the contract carefully, in person, with your client. Include a place on each page for the client to initial.
- Customers need to know up front that changes will increase cost. Tell them at the beginning of the project that changes will typically add 5% to 10% to the original budget of most jobs. For example, discuss the tendency to overspend on allowance items such as electrical fixtures and floor coverings.



- Be prepared to spend the time needed on detailed estimates.
- Establish a local identity. Get involved in the community to meet people.
- Advertise in community papers and help sponsor community events.
- Join the local builder's association. Become active in the association to get more referrals.
- Talk to real estate agents—not everyone, but those who are active and visible, and who specialize in new houses. (Lending institutions can recommend good agents.)

—SJ