



*Design / Build / Renovate*



## **Building, Buying or Remodeling Your Next Luxury Home**

### *A Professional General Contractor's Inside View*

Evaluating housing ownership options are a complex and emotionally charged topic that many of our upscale families face several times in their adult lives. It often involves challenging personal questions and jigsaw puzzle type economic analysis to formulate an informed opinion or decision. The purpose of this guide is to provide a broadly organized and objective overview of the relevant factors to consider that play a significant role in leading to a decisive action.

Building a custom home or undertaking a full home renovation is no small task, and not for the faint of heart. The process is arduous, but if you have the patient determination to see it through, it can be one of the most gratifying undertakings in your life. There are very few things in life that are as rewarding as the achievement of completing a major home project.

Due to the complex nature of economic factors, such as locations and the multiple issues surrounding different evaluation scenarios, we will limit the scope of this subject matter to our Houston business service area. Marwood Construction services the high end neighborhoods of Memorial, Tanglewood, River Oaks, West University and the immediate surrounding areas. These locations have many common economic factors that make them sensible to correlate for our topic.

Let me start by saying that a home should first and foremost resonate with your lifestyle. Your home should reflect how you live day to day. It should mirror the importance you place on your quality of life to one and all.

With that said, this guide was developed to assist the homeowners when they are seriously considering building a custom home or remodeling their existing home. Our goal is to provide you, the homeowner, with information and insights about the process of building a new home or undertaking a major remodeling project. Through this summary, we endeavor to outline the reasoning and justification required, to assist you in the decision making process of this substantial undertaking. It is our desire to help you develop a road map of understanding for the process of each option, and how to get there as painlessly as possible. This is a very personal decision and each individual family has different needs and wants. The key to this process is to be open and honest with yourself about what is truly important in your lifestyle.

We will begin with a profile of the high-end, Central Houston housing market conditions in an effort to set value perimeters for comparisons of our topic.



### *Central Houston Background of High-End Housing Profile*

As you know, most everything in real estate is about location, location, location. Home building is no different, so we will restrict the location of our subject matter to Central Houston high-end housing neighborhoods. Widely known, this area consists of mature, established neighborhoods with very few vacant lots. The majority of available home building lots are the immediate result of the demolition of existing homes. Builders and Developers closely monitor the older home values, and when the land values reach a higher price than the improvements, the existing home becomes what is known as a "tear down". Land values in this area have doubled in price the past 10 years. The result of these increasing land values has yielded a rapid escalation in home valuations during this same period. Home prices spiking, coupled with an aging housing inventory, has created high demand for the limited supply of available home site lots. Land values are one of the main components, over the long term, that keep housing prices elevated during economic downturns.

Again, our defined high-end market segment is very established. This segment consists of homes built as early as 1930 and as recent as the date of this guide, although the average age of homes in our specified area is 1978. The typical pre-1970 home was a one-story home on a 1/4 -1/2 of acre lot. Post 1970 homes commonly became two-story homes built on these lots as replacement homes. Many of these existing home lot sizes are restricted from being subdivided by deed restrictions. The current price range for a future home site is between \$1,000,000 - \$2,500,000, representing \$40/sf in the west side of Memorial to \$120+/sf in the River Oaks area.

Home values have risen between 80% to 100% in the past decade according to HCAD.org. This would mean that a typical 3,000 sf home, priced at an average value of \$500,000, would currently be valued at \$800,000 - \$1,000,000. These price values represent the base price point for a lot.

### **The Land Evaluation Considerations**

Constructing a new custom home begins with selecting a building lot. This can either be a lot that someone has previously cleared and prepared for sale or the purchase of an older home for the purpose of demolishing the existing improvements. The key to determining the building lot begins with your personal financial qualification, which establishes your purchasing power.

Understanding your mortgage payment threshold is a simple qualification for your potential price range in home values. This, in turn, will lead you to financially qualifying for the appropriate neighborhoods you are considering. With this financial knowledge in hand, you can begin the process of evaluating your options.

If you do not truly value for your existing home, or are not in love with your immediate neighborhood, this becomes a fairly easy decision discerning new building verses remodeling. If this is not the case, and the issue is that your home is undersized or out-of-date, you should



seriously consider the possibility of expanding your current home through an addition or a full home remodel. This of course, is assuming that you have the lot size to justify expanding the footprint and would also like to remain in your immediate area. A major remodeling project may warrant consideration as a wise financial option, due to the fact that you already have the equity appreciation in your land and only require the construction cost estimate to complete the analysis. Provided your existing structure has good bones (foundation and wood structure), and can feasibly be developed into a home that will meet your needs, the total improvement cost will be 35% - 45% less than building a new luxury, custom home.

If remodeling your existing home is not an achievable option, then purchasing a lot is the first step required in beginning the new home construction process. Be prepared for this to take some time. Finding the perfect building site is often a matter of being in the right place, at the right time. Identifying the right lot is essential to realizing the construction of your dream home. You should have an idea of the rough overall size and foot print dimensions of your proposed dream home. This will insure that your projected home will fit on your new property. For your peace of mind, once under contract, Marwood always stakes out the client's concept; drawing homes on the building site to verify that it will fit and to provide the owner with layout orientation. We can stand in all of the different future rooms together and observe the views from inside the home.

In the event that you do purchase a lot to build on, carefully review the deed restrictions prior to closing to verify that there are not any restrictions that would inhibit you from building your ideal home in that specific neighborhood. Pay special attention to setback requirements and any new amendments that may not be with the original deed documents. Locate utility easements and take note of the front and side setbacks of your neighbors. Also note your drainage patterns for the immediate adjoining lots. If you build your lot grade up or add a pool, review the neighbor's yard's rain runoff drains flowing through your property.

### **Preparing for Plan Design**

This aspect of the process is fundamental on several fronts. First, by developing a photo portfolio, you cut the design time considerably and often save money, due to the reduced hours your design team spends conjuring up concept ideas. In addition, this allows your design team more time to create relevant and useful design concepts that are meaningful to your goals. The second benefit is that you are organized and prepared to evaluate concept designs. Your readiness conveys to your team that you are serious and committed to this project, which is important when interviewing and assembling your Design Team. When interviewing members of your Design Team, they will be much more interested in working with someone that is organized and has a defined vision for the design project.



There is no right or wrong way to go about collecting photo images for your photo portfolio. It is useful to prepare multiple files, such as exterior elevations, floor plans, interior room elevations, kitchens, baths, exterior living features, products, etc. As you find picture images of interest, make notes in the captions of what you like represented in the images you have saved. We recommend free services such as Houzz.com and Pinterest.com to begin your search because they provide a comprehensive collection of photo images and allow you to store your photo portfolio on their site. So when the time comes, you can share your ideas electronically with your Design Team. You can clip photo images from magazines and print images from popular interior designers' site's to keep a set of hard copy images to supplement your online portfolio.

Making notes about the beloved, special features of your current home can be very beneficial. This includes treasured items in your existing home that you will wish to feature in your new home, such as art work, family photographs, collections and keepsake furniture pieces. Also include floor plan elements of the existing home, storage or access issues, and/or problems with functionality that have irritated you during the time in the residence. Be sure to note areas/features of your current home that have been a maintenance drain on your time or caused you aggravation. There is no reason to continue to live with time consuming maintenance or aggravating design/installation issues when you are planning a new home.

Preparing for the design process is similar for either building a new home or planning for a major renovation. The difference when planning for a major renovation, is that you are often limited by the perimeter envelope of your existing structure. Yes, you can build a one-story home into a two-story home and yes, you can extend the perimeter envelope. The limitations begin when you want to make extensive layout changes to bathrooms/plumbing (causing the foundation to be substantially modified) or when large numbers of load bearing walls are being transferred to foundation locations not designed for these loads. Although these design requests can be achieved, the cost seldom merits such a modification.

Concept pricing of your new home construction can be achieved for preliminary budgeting purposes by simply looking through Har.com for new construction home prices. If you have an idea of what size you want for your future dream home and have an idea of lot pricing for the identified area, it only takes a little math to project what your home's target value will be when completed. This is not as easy to determine for a whole home renovation, but you can assume that it will be substantially less. You may want to do some research by attending some open houses of properties that have recently been modified and restored. This will give you a good ballpark with which to start.



## **Building Your Collaboration Team**

There are 3 key factors associated with hiring professionals, i.e. architect, general contractor and decorator: a) vetting their qualifications, b) determining if they understand and can produce your vision and c) concluding that you trust them and will enjoy working with them. You will be spending a great deal of time interacting with this team, so it is vital that these key factors are in place so that the process will be positive experience.

Building your Design and Construction Team is one of the challenging parts of the building process. There are many different ways to go about this task. Conventional wisdom is that you hire an architect to draw your plans and then have a general contractor bid the plans. This method often turns out poorly for the owner. A home project budgeted for \$1.5M can result in bids that will come in at \$2M. This leaves the homeowner squarely in the middle, requiring them to redesign or expand their budget. It also is common for a complicated design to have functionality flaws built in to the plans that were overlooked during plan review. This will likely cost the owner additional expenses associated with correcting the issue. Again, this leaves the homeowner regretful and frustrated with the outcome. These are common occurrences when the homeowner does not employ a Collaborating Design Team build concept.

A Collaborating Team concept (also known as a Design Build Team) is when the homeowner hires an architect, a general contractor and even an interior designer to function as a working design team, collaborating for a common goal. It is not critical which professional leads this process, but commonly owners choose the General Contractor (GC). What is critical is that there is a professional working relationship between all members of the team. The homeowner, when interviewing their chosen professionals, must carefully determine that they trust and enjoy working with each professional, and that the professionals will work well together in the best interest of the project. Know that professionals are artist, have emotions, and their egos need to be checked at the door when collaborating for a common goal.

The benefits of employing a Design Build process are most notably that the owner remains involved and in control of the entire process. The owner typically contracts directly with the General Contractor, who in turn contracts with the Architect, and if required, the Interior Decorator. This method of design contracting will save time by the continual estimating and budget confirmation that are ongoing during the entire process. This reduces the budget busting surprises and ill will that goes with that result. There are estimating exercises at each stage of design, which leads to another advantage: more accurate cost estimating. The process and financial assurances allows the owner to reduce the amount of time the traditional design process takes, and allows the GC to move much faster toward permitting and starting construction.

Another advantage of the Design Build Method of design is that it ultimately reduces the number of Change Orders experienced through the process. This is principally due to the accountability of



both the Architect and General Contractor to the owner. The amount of finger pointing is all but eliminated, as they are responsible to the project. Whereas in the traditional method, the Architect and General Contractor are not accountable to each other, resulting in the owner paying for mishaps. In addition to the money not spent on change order expense, the design process typically cost about 10% less than contracting each professional individually.

### **Plan Design & Budgeting**

The actual home design process involves multiple meetings and multiple phases of design drawings. Most design processes begin with a fresh review of the owner's objectives and goals for the project. You have likely already discussed these with your Design Team during the interviewing stage, but at this point we want to outline the tasks and procedures on accomplishing these goals as a team. As previously suggested, it is important to be prepared with your photo portfolio in hand when engaging your Design Team and sharing your needs, your wants, all special required features and products. Architecturally speaking, the actual home drawings usually begin with concept space plan sketches, which are converted into a rough floor plan. The concept floor plan is used to illustrate the interior room views of the exterior vista and site orientation on the owner's lot. Once approved, the next phase is converting rough sketches into preliminary drawings. These will include front elevation, roof design, interior elevation sectional drawings, all of which provide you with visual images and cut-through sections of your home.

We recommend to all homeowner's, who may or may not have challenges with reading layouts and blueprints, to request the Design Build Team to provide a 3D drawing model. It will enable the homeowner to visualize how the home interior layout flows and experience the feel of the space and detail of each room. This is indeed a very useful exercise in gaining confidence of the direction of the design process to achieving your design goals.

From the beginning, you should always share your home budget dollar amount expectations with your Design Team. One of the primary benefits of using a Real Design Build process is that during the various phases of home design, the General Contractor will be providing reasonable estimation assurances as to whether the home design is within the budget range or not. The typical Design Build process has 5 phases of design drawings and the corresponding 5 levels of cost estimation. Each of the phases adds more construction documentation, which in turn provides a higher assurance of confidence in your accurate project cost. If at any point the home design exceeds the budget's parameters, the incomplete design drawings can be value engineered to scale back to the budget threshold, without causing a huge delay in the design process or unexpected major design cost added to the project.

After your general acceptance of the preliminary drawings, and receipt of supporting construction documents, the Architect will move forward with more detailed drawings and specifications.

[www.MarwoodConstruction.com](http://www.MarwoodConstruction.com)

[info@MarwoodConstruction.com](mailto:info@MarwoodConstruction.com)

713-818-1720

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Armed with all the product detail information provided through the meetings, and the drawings 90% complete, the GC will build the bid documents realizing a detailed schedule of values. The schedule of values is compiled using various estimating techniques, which include visualization of the building of your approved drawings, unit pricing and soliciting trade bids. After the schedule of values has been established supporting the budget, the owner can finalize their construction lending. The GC then provides the Design Team with the itemized detail budget and the allowance schedules supported by the plans, specifications and product selections provided by the homeowner. The allowance schedule is for decorator items like lighting and plumbing fixtures, flooring, appliances, hardware, etc. which have not been clearly defined. This budget usually represents the +/-5% of the actual and total construction cost. At this point, the owner may choose to finalize the construction contracts and have the GC submit the plans for the building permit, if not previously submitted.

### **Contract Structures and Insurances**

There are a number of contract document structures that the homeowner can use, with each required professional member individually, or the owner can contract with the collective Design Team in a single document. We will only list these contracting method options, for contract opinions are outside the scope of this guide, as well as a discussion of the legal effects of the different contract justifications. \*Nothing in this guide should be considered as offering legal advice. Architects, General Contractors and Interior Decorators usually all provide the homeowner with their own professional association's standard contracts if contracted separately.

*AIA Owner Architect Design Agreements* are used when the Owner and the Architect enter into a design agreement to design a single family residence.

*Fixed Price Lump Sum Contracts* are used between the General Contractor and the Owner that provides a specific fixed price for a specific scope of work. The advantage to the owner is that they have a fixed contract amount, based on the working construction documents. This is conditional however, providing that no material changes are made during construction, unless it is at the fault of the General Contractor. This type of contract tends to experience more Change Orders.

*Cost Plus Fee Contracts* Although this type of contract shifts most of the actual building cost risk to the owner, there are times when this contract can also be beneficial. Such a time is when the housing project scope of work is not clearly defined, or the construction is so unique that no reputable General Contractor will provide a reasonable Lump Sum Bid amount. This contract is also used to fast track a design build project where time is a major concern. The major owner advantage of this type of agreement is that you are provided full transparency of the project cost. Each invoice must be presented to the owner for payment.





Not Exceed Maximum Price contracts are very similar to a Cost Plus Fee contract, but the difference is that there is a maximum price value that GC promises not to exceed. This contract method is primarily used under similar circumstances as the Cost Plus contract, but the owner has capped their total upside financial exposure.

### Design Build Contract

This contract is entered into with either the Architect or General Contractor and the Owner. The Principle Lead of the Design Build contract, the Architect or GC, will then enter into agreements with supporting Design Team members. This contracting method is used to create a collaborating effort between the principle members supporting construction and the design of a common project. It usually saves time and money by promoting accountability of the principles and gives the owner greater control over the design process and budget impacts. It creates continuity, accountability and an open, honest flow of communication between all parties.

### Insurance

The General Contractor will usually provide General Liability Insurance and Builders Risk Insurance on both major remodeling projects and custom home projects. The homeowner should be prepared to provide Property Liability Insurance throughout the construction process. It is best to explain to your insurance agent that you will be conducting a construction project on your property. He may suggest additional Riders or an all-encompassing Umbrella Plan for the duration of the project.

## **Construction Phase**

The construction phase is where you begin to see your dreams physically materialize. Although after the lengthy home plan design, you are likely to become very anxious about completing the project. It is best to pace yourself and work out an effective communication method and meeting schedule with your GC. It is also a good practice to walk the project on a regular basis to view the progress and discuss any concerns. It is worth mentioning that the GC is as motivated as you to completing the home. The faster he completes the home, the sooner he receives his money.

A third party Inspector can be valuable during this phase. They can be a second pair of eyes on the project and act in the interest of the Design Team when unexpected issues arise. The greatest asset the Inspector offers the owner is the added confidence and peace of mind of having another expert on hand. Inspectors can reduce the owner's anxiety concerning elements of construction that they may not understand or construction practices which cause them to be overly concerned. Of course, this expense is another layer of assurance built into the total project cost.



All GC's use a variety of scheduling techniques and mechanisms to plan for both the long and short termed activities and events of the construction process. The most common reasons schedules fall behind are twofold: weather events and the ordering of specialty products with long lead times not being placed with sufficient time to meet the critical path of the schedule. By making decisive product selections and communicating the desire for unique or distinct products and/or the necessary specialized tradesmen, owners can assist in avoiding schedule slippage. As you know, the Texas weather is unpredictable, so it is always a roll of the dice.

A brief word about structures... At Marwood Construction we are strong proponents of over designing the structure of the home. For instance, soil report may not require foundation piers, but as a best practice, we will install them for the future serviceability of the home. Another example is that we use 2 x 6 exterior walls which makes for a much more stable perimeter and allows for a greater amount insulation, increasing the R values of the envelope, ultimately saving the owner money on utility bills. We also require the use of floor trusses. We use steel and composite beams because of the enhancement and stabilization they provide to the longevity of the structure. If you are building a luxury home for the ages, then these small, incremental expenses should never be a second thought.

## **Builders Warranty**

Unfortunately, in the State of Texas, neither owners' of new home construction nor newly remodeled homes are protected by explicit performance warranty laws. Instead, in the State of Texas, new homeowners' are required to either seek a remedy through the goodwill of the General Contractor or seek restitution in the courts under Title 16 status –(i.e. causes of action based on the implied warranty of good workmanship in construction and the implied warranty of habitability). For this reason it is crucial that you carefully review the warranty documents that your Builder provides for his customers. Once again, this exemplifies why it is imperative to select a trustworthy professional as a partner in your building projects.

The reputable builders will normally buy and provide a separate warranty from a Warranty Service Company, or even agree to stricter standards than those in the statute. Yet this does not relieve the Builder of their ethical obligation, implied though the sales and service required, under an implied warranty. Most quality Warranty Service Companies provide the following common standards:

- 1 year warranty for workmanship and materials;
- 2 year warranty for mechanical delivery systems;
- 10 year warranty for major structural components of the Home; and
- 10 year warranty of habitability.

Most responsible and reputable Warranty Service Companies provide a documented booklet of the Standards of Performance and allowable variations in the standards. The Warranty Service Company acts as an insurance company by providing assurances that your home will be covered in



the event of non-performance. The GC still remains responsible for the correction of non-compliance performance.

## **Pros & Cons Summary**

It is essential, when tackling the decision to build a new home or a complete home renovation, that you clearly define your family's current and *future* lifestyle and housing needs. Take into consideration the neighborhood, yard, schools, medical and dining/shopping options. These concerns are not always easy to prioritize, and yet are often pivotal in making the right decision whether to build a new custom home or remodel your existing home. We will attempt to summarize the pros and cons we have outlined in this guide.

## **Building a New Luxury House**

Since new home construction prices are higher, your first impulse might be to buy a pre-existing home. Instead, you might be amazed by the affordability of a superior quality new home, provided you have the personal fortitude and willingness.

### Building Your New Luxury Home Pros

- *A Uniquely Designed Home, Personally Tailored to Your Lifestyle Needs*
- *Everything is Brand New with Warranties*
- *Pride of Achievement and Ownership*
- *A Home Built for the Generations*
- *The Newest Money Saving Technology Available*
- *Fulfilling a Long Life Dream*

### Building Your New Luxury Home Cons

- *It takes a Long Time to Plan and Build a New Home*
- *Lots carry Cost & Construction Loan Expense*
- *Can Be an Unpleasant Experience with the Wrong Professional Team*

## **Major Renovation Project of Existing Home**

This becomes a worthwhile consideration due to the advantages that this option offers:

### Renovation Pros

- *A Much More Cost Effective Solution than Building a New Home*
- *The Entire Process is Much Faster than Building a New Home*
- *Continuing to Enjoy the Advantages of the Familiar Neighborhood Surroundings*
- *Capturing the Value of a New Home without the Tax Valuation Impacts*

[www.MarwoodConstruction.com](http://www.MarwoodConstruction.com)

[info@MarwoodConstruction.com](mailto:info@MarwoodConstruction.com)

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- *Most of the Benefits of a New Custom Home Built*
- *Financial Positive Leveraging of Existing Equity without Losing Marketing Appreciation Gains*

#### Renovation Cons

- *Temporary Housing and Storing Your Belongings for a Extended Period*
- *Limitations of Design Changes Imposed by Original Homes Design*

#### Buying a House

Buying a house is an attractive option for many people because, in most cases, you can move into the home shortly after closing. Oftentimes, homebuyers might fret over the purchase of a home that has some less-than-stellar features. Keep in mind, the home you buy doesn't have to be perfect down to the wall paint. You can update the unattractive features of the home over time, and you might even profit from a few upgrades.

#### 5 Pros of Buying a House

Here are common benefits to purchasing an existing home:

- *Upgrade costs can be delayed:* With a pre-existing home, you can take your time making upgrades, allowing you to better budget for the expenses.
- *Ability to move quickly:* In most cases, the buyer can move in immediately after closing. There is no wait time or temporary housing to worry about.

#### 5 Cons of Buying a Home

Disadvantages of buying a pre-existing home include:

- *Buyer's remorse:* You need to discover and get used to the quirks in the house that didn't stand out when you were in the buying process.
- *Upgrade costs:* Having to move into a home and make upgrades can be a major time and money investment. The average cost of even the simplest home remodeling projects can cost thousands.
- *You are stuck with the layout:* You can't easily change the layout or floor plan of a pre-owned home.
- *Decorating costs:* You might have to invest some time and money to bring the home up to current decorating standards by removing wallpaper, changing paint colors or updating flooring.
- *Higher home insurance:* Compared to a new home, the home insurance costs will be higher with a pre-owned home. New homes come with features that are new and up-to-date, unlike some pre-existing homes.



## **Conclusion**

Regardless of whether you choose to remodel or build a new home, it is our wish that you have found this guide useful and insightful. At Marwood Construction, we are passionate about the residential home building industry and the professional standards that the industry should uphold. We are also sensitive to the level of trust that is bestowed upon us by our clients.

If you have further questions regarding the Design Build process or would be interested in discussing the building of a new home or a major renovation project needs with us, we would be pleased to assist to you in any way we can. Marwood Construction is committed to quality craftsmanship and unparalleled customer service. We look forward to serving your luxury housing needs.

We take our clients' trust and professional responsibilities very seriously. If we can be of any service, we would be honored to extend our assistance to serve you. Please visit us at **[www.MarwoodConstruction.com](http://www.MarwoodConstruction.com)**.

We can be reached at **713-818-1720** or contact us at **[info@marwoodconstruction.com](mailto:info@marwoodconstruction.com)**.



[www.MarwoodConstuction.com](http://www.MarwoodConstuction.com)

[info@marwoodconstruction.com](mailto:info@marwoodconstruction.com)

713-818-1720