



## **Luxury Custom Home Building Expectations**

Managing luxury custom home building clients expectations is by far the greatest challenge that a luxury home builder and their client will face together. Although the responsibility squarely rest on the shoulders of the luxury home builder, an owner would be well advised to understand their role and the repercussions of the effects if the builder does not manage this responsibility. As one might expect, the most common friction point that develops is the owners perception of the architect or general contractors disregard of the financial stewardship for the owners money. The second most common owners frustration is the lack of clear communication and misunderstandings that result between the home building parties, architect, builder and the owner.

It is important in the early stages of the owners due diligence in selecting an architect and general contractor that the owners seek a home builder and designer that fits their specific personalized criteria. This personalized criteria should reflect the owners ethical and principle business philosophy. Professional partners should also share a mutual understanding of the level of personal service that will be required during each of the following phases of the luxury custom home building journey. Selecting your architect and your home builder should be in the capacity of a personal trusted adviser partnership. The owner should take the same care in selecting these trusted advisers as you would a surgeon or an torts defense attorney. You are likely to be closely associated for 2 to 4 years.

### **Design Stage**

The design team is composed of an architect and a general contractor. In some circumstances the team may also include an interior designer and landscape architect. The design team has a responsibility to the owner to create a conceptual design that reflects the wishes and ideas that their clients are envisioning. It is also the responsibility of the design team to develop budget expectations for the owner and then guide the home design to represent these expectations. These two principles can collide in conflict if the design team does not manage the owners expectations.

The homes structural shell design of a luxury home has the greatest impact on the overall construction cost than any other cost factor. The more unique and non-rectangular the structural shell is the more expensive the construction cost. This is principally due to the need for highly skilled tradesmen and unconventional methods of assembling the structure.



It is also widely known that as a designer increases the square footage of the home the cost increase. The cost also increases as the proportion of under roof square footage increases to A/C square footage. A few examples of this are designs that include larger 3 and 4 car garages and vast roof areas designed for verandas and front porch canopies.

It is essential for the design team to communicate these cost impacts of significant architectural design features early in the process to serve the clients interest and allow them financial control over the design process.

### **Product Selection Specifications**

Product selection specifications are the life blood of the budget. The products used in the construction of a luxury custom home drive a significant portion of the cost line items of the construction budget. As the cost of product component values increase on unique quality products so goes the cost of labor.

It is common for the owners to not complete selecting their products and materials prior to the final design plans being completed. Most builders will prepare a product allowance schedule when the products and materials have not been selected for the purpose of completing the final construction cost. Most owners are operating under the impression that the selection allowances will be sufficient to cover the products they choose. Clear communications are required to avoid a major problem when the allowances receipts are reconciled.

As a method of good communications and best business practices during the product and material selections, also known as the color board, should be reviewed and signed by the general contractor and the owner to eliminate the potential for future confusion. Color can be considerably effected by light and other reflecting product colors. To avoid an unwelcomed surprise it is a good practice to create color samples and mock ups on the job site before installing the selected materials. These practices can lead to avoiding massive disappointment and additional unwanted cost.



## **Developing a Budget**

The most effective method to develop the construction budget is to create the budget during the design process instead of through the bid process after the design is complete. If the design plans have been finalized and approved by the owners and the general contractors bids come in at a number that are unexpectedly high, the owners and architects will be required to conduct value engineering and redesign portions of the finished plans.

One of the benefits of using the design build process compared to the traditional design bid process is that the value engineering is done during the design phase instead of after design completion. Your general contractor is building a high confidence schedule of values during the later stages of preliminary design. By using the design build process the owners saves time and money over the traditional design bid method.

The construction budget is a product of the design plans, design documents and the product selections. In order to have a complete final budget (construction cost) it is necessary to have the products and design documents very close to completion. In the absence of the exact product selections the builder will establish a schedule of product allowances as already covered.

Builder product allowances can represent up to 25% of the construction budget. It is the builders responsibility to explain in detail what the unit price is and the quantity needed for installation. The unit price serves as a price target when shopping for materials. If the owner spends more than the allowance amount they are required to settle the account at the time of purchase.

## **Builders Fees**

The builder fees are derived from the total construction cost. These fees vary with the size of the project and the builders risk associated with the project. Builders fees need to be sufficient to cover their operating overhead and to provide the general contractor with a profit. The actual profit margin will vary depending on the contract agreement type. There are essentially three different methods to contract with your builder. The first is the traditional competitive bid method. The second is a negotiated fee agreement and the third is a cost plus agreement.



The traditional competitive bid method is considered by most builders to be the highest risk agreement and therefore the highest builders fee. This method has been the standard acceptable contracting method for many years. This contract has typically provided the owner a comfortable assurance that the home built by the design documents should in theory not cost the owner any more than the fixed lump sum amount. The down side is if there are problems with the design plans these additional cost will be absorbed by the owner.

The negotiated contract is considered by most builders to be a medium risk contract agreement. This is due to contract provisions that allow the builder to share in certain engineered cost savings per the contract agreement terms in return for a lower builders fee.

The least expensive builders fee is the cost plus fee. This fee agreement pays the builder a fixed percentage of the final construction cost. The benefit to the owner is a lower builders fee but the owner is required to approve and pay the actual construction cost. The owner assumes the risk of the construction cost volatility.

The general contractor is required to maintain a separate checking account for all payments and deposits that are associated with the new home building project. In the event of negotiated builder fees and cost plus fees, the builder should provide the owner an open account review policy for all the project cost receipts.

### **Custom Home Building Process**

The custom home building process is packed with many potential client expectation landmines. These areas of the building process include communication inconsistencies, architectural incomplete plans and documents, over-promising and under-delivering on the builders part and poor builder system processes. Many of these issues stem from lack of a clients understanding on how the general contractors home building process actually works and the owners responsibilities during this process.

It is also the responsibility of the custom builder to dispel unrealistic buyer expectations such as; the entire process will be smooth without incident, that they will not change their mind, that they can save money by doing some of the work themselves and that they can avoid two moves by timing the sale of their current home.

There are also a large collection of general construction process understandings that should be openly addressed such as; selections and decisions are required to be made



diligently to avoid delays, that the client should not provide direction to subcontractors, delays and problems in construction are part of the process and are inevitable.

It is very common during construction of luxury custom homes that the owners will request special tile layouts, ornate millwork details, mosaic tile images and cabinet details that cannot be found in the architectural plans and documents. These types of details are captured in shop drawings provided by the installation vendor. These documents are required to be reviewed and signed off by the owner before commencing.

By the general contractor being proactive in addressing potential problem areas, there is a greater opportunity for the owner to have a satisfying custom home building experience.

### **Change Orders**

Change orders have taken on a very negative connotation with owners. Many owners have heard horror stories where a builder abused the change order process to increase their projects profitability. This is not the intention of a reputable general contractor. Change orders are a viable method of documenting specific events or request by the owner to modify or alter the existing documented conditions of the custom home. Many people associate change orders with an additional cost. A change order can be used to verify a specific change request at no charge, like paint color, or it can be used to extend the construction time for contractual purposes.

Change orders are also a useful document for owners. The use of this document provides the owner ultimate control of the construction process. The builder cannot modify construction plans without the authorization of the owner approval.

### **Warranty**

The builders warranty is the last piece of the luxury home building process that has the possibility of problems with client expectations. It begins with the general contractor completely finishing the home before the owner moves in. This includes a formal walk through with the builder and owner conducting a final acceptance inspection and documenting any minor adjustments or discrepancies that need attention prior to occupancy.



Another common customer expectation problem is the procedures for requesting warranty claims. The owner should be provided standard malfunction request process procedures and emergency request process procedures. The owner should have a clear understanding of both procedures and the standards for repairable performance deviations. These standards are commonly provided with a reputable 3rd party home warranty plan that addresses cosmetic deviations, mechanical & electrical deviations and structural deviations. These plans will usually detail the specific performance required for adjustment or failure through malfunction.

## **Conclusion**

The partnership between the general contractor and the owner is based on trust and open communication. It should be the goal of the owner to sincerely employ a professional trusted adviser that conducts business with the owner in a manner that demonstrates integrity in providing advice that serves the best interest of their client. It is the builders principle responsibility to demonstrate mutual respect, fairness and honesty in the business affairs between both parties.

The luxury home building customer experience is likely to be a much more successful journey if the builder will practice client empathy. This requires the builder to consider the clients perspective during dissatisfied periods and demonstrate a genuine willingness to do what the builder has promised. These business practices will establish a working foundation for professionally resolving problems effectively and establishing mutually beneficial experience for all concerned.