



Buy or Build - A Personalized Custom Home Buyers Comparison

At one time or another every successful person will consider building a new custom home instead of buying an existing home. Yes, we all fanaticize about what our new dream home would look like and feel like. It is a wonderfully warm feeling to imagine how your perfect home could enrich your life. Although you would expect that most successful people would aspire to reach this goal, the reality is that most flourishing people's life is so busy and complicated that it is just easier to settle for buying an existing home.

So why would anyone go through the time consuming and challenging process of building a new custom home. Why would they want to wait 12 - 24 months to have a tailor appointed luxury custom home? Buying or building a new home is an emotionally driven process. We all want to make that emotional connection with the property. Our discussion will examine the major differences between buying and building a new home.

Location

As with most real estate transactions the location is most often the driving factor in your ideal home selection. This may be an general area of the city or a specific neighborhood. In Houston if you are willing to live 30 - 40 minute drive outside the metro area, you should have a greater selection in which to choose from in both newer homes and future home sites. The prices are much more affordable and the inventory of available homes a much newer vintage.

If your preference is to live in the metro area of Houston your selection options are much different. The age of homes may be in a vintage range of 80 years while the inventory for future home building sites are virtually nonexistent compared to suburban Houston. In the Houston metro area it is common practice to buy older vintage homes for the sole purpose of capturing a building site for a future home. This often referred to as a tear downs.

When it comes to selecting a building site or buying a new home in metro Houston the buyer has a large variety of different architectural homes styles to select from in purchasing but not so with lots. The building lot and applicable deed restrictions will often dictate the minimum size of home, the architectural style allowed and the required setbacks that apply to new construction. So the selection of a building site will require a fairly clear idea of what the home's footprint will look like to vet the best lot for your needs.



Customization Instead of Compromise

One of the mutual options for either building a new custom home or buying an existing home is that you can customize each to fit your needs. Although this is generally the only commonality that new homes have with existing homes in the evaluation process. In the case of remodeling an existing home you will be restricted by the existing home's structure and the associated cost to modify the home to represent your every need. If you spend too much on renovation improvements you will not experience a reasonable return on your investment. There comes a point of diminishing returns where it is actually more cost effective to build a new home instead of a major renovation on an existing home.

The tailoring of a new custom home to the owner's specific needs is a very unique experience in purchasing large ticket assets. Few personal assets like private jets or yachts allow you to create a custom designed one of a kind purchase. In this class of assets homes are the only asset that will likely increase in value over time. Designing and building a new custom home allows you to select the specific materials, the exact floor plan and those very special finishes that uniquely define you as the owner.

So the distinctive difference between existing home purchase and building a new custom home is customizing instead of compromising. If you are fortunate enough to find the existing home of your dreams in the ideal location you are indeed fortunate.

Warranty

Although you can purchase various after market home warranties for existing homes they are restrictive in scope and often difficult to obtain benefits. When you build a new home in Texas, the home has a mandated warranty of 1/2/10 years. One year of cosmetic problems, two years of mechanical/electrical/plumbing and a ten year structural warranty. This warranty is required by the State of Texas. Your builder may have a warranty that surpasses these minimum state requirements.

The real benefit of a new home warranty is that you are not likely to experience any surprising home maintenance expenses as you will with purchasing an existing home. As a rule of thumb the experts in the industry suggest that an owner of an existing home should set aside 1% - 3% of the value of the home for home maintenance and repairs. The percentage of expense goes up as the age of the home increases. This means that on an older home valued at \$1,500,000, the expected expense annual could be as much as \$45,000 a year.



Energy Efficiency

Another home expense that continues to increase over time is the cost of home utilities. Tighter energy efficiency requirements are mandated by the federal government on a regular basis. New home energy conservation standards are imposed by laws and consumer demand. These same requirements also apply to the home remodeling and repair industry.

Older homes were constructed with very poor energy standards. Very little conservation was employed by home builders of the day. The demands for home energy efficiency have grown as the price of water, gas and electricity continue to increase.

The significant difference is that in the home improvement industry the owner is required to only comply with the current requirements of a specific product like kitchen appliances or a new compressor SEER rating when it requires replacement. Energy efficiency is a comprehensive package of products that work as a system. So when you build a new custom home a comprehensive system of products and components are used collectively to reduce the consumption of energy for the entire home.

Financial Advantages

As with most extravagant acquisitions the value of the purchase is translated in financial and unique experience terms. Luxury custom homes are no exception. Evaluating the financial advantages of a new custom home compared to the purchase of an existing home is complex and requires careful analysis.

Cost of Building vs Remodeling - The total cost of new home construction is much more than the total cost of a given home renovation. Although in most cases the unit cost of remodeling per square foot is greater than the unit cost of new home construction. The most effective method of financially comparing the two alternatives is by evaluating the all in total cost return on investment. This requires obtaining past and current prices to project future values. Although there is a substantial inherent price difference in new home values vs renovated home values of comparable values, the price spread will shrink over time.

Price Difference in Value - There will always be a price difference between comparable new home construction prices and existing home prices. This price difference is commonly the market value (supply and demand). Buyers perceive the



differences we have discussed between newly built homes and remodeled older homes as the market value differences. Although there may be a market price spread between older homes and newly built homes during the offering period of the new home, this does not necessarily reflect a perceived future value of the same homes in the years to come. The perceived value is influenced by changing demands for specific locations and trending architectural and product demands.

Comparable Asset Class Investments - Custom homes and existing luxury homes maintain and increase their value unlike any other personal non financial asset. In addition with a very few exceptions, luxury homes in Houston have performed as well as other financial instruments such as market indexes in the past 25 years.

Additional Advantages

When comparing purchasing a newly constructed home to a purchase of an existing home there are other considerations that play a role in the decision making process.

No Maintenance or Repair Cost - Newly built homes typically do not require anywhere near the amount of maintenance or repair cost for many years to come. As a newly built home approaches 10 years of age, the need for repairs and maintenance cost begins to increase.

No Need to Remodel or Update - Another benefit of newly constructed homes is they do not require the disruption of updating or remodeling. In most cases when you purchase a newly constructed home you will move in to a completed and beautiful house. When you acquire an existing home, you more than likely will need a level of personalization which will necessitate the need to be inconvenienced after you move in.

State of the Unique Architecture - Architectural and interior design trends continue to change over time. As these trends take hold in popularity it causes several year old homes to appear out of date. This in turn results in owners in older homes wanting to update their homes with these designs and products. This can readably be seen in the automobile industry.

Buying Someone Else's Hidden Problems - It should be obvious that when you buy an existing home that you are purchasing a history of hidden home problems. This does not imply that this is a result of non disclosure by the seller, but rather the over looked signs of home distress or problems that are not observed by transactional home inspectors. Every existing home has them.



Conclusion

Building a new luxury home is absolutely a long time line process and should be approached in this fashion. If you can remain living in a current home comfortably and start the new home building process of developing your budget, finding the right future home site and selecting your design build team, you will likely make the journey more enjoyable.

Other options remain for those owners that are interested in exploring the new home construction journey whose equity is tied up in an existing home. For those owners they can consider selling their homes and renting for the design / construction process. They can also consider tapping into the equity of their home through a home equity loan and using this line of credit to secure the building lot and begin the design process as they sell their home.

For those owners that will be using cash, you can stay in the comfort of your current home until you reach a period of construction where the weather does not impact the schedule significantly.