



Custom Construction or Buy Existing and Remodel?

In the current market it is much more affordable to buy an existing home than it is to purchase new or custom construction. Why is that?

The costs of materials and labor did not correct as the housing and land prices did during the recession. The agents that work with General Contractors were quoting estimates of \$250-\$350 per foot for mid-level new home construction costs before the recession and are now quoting \$350-\$400 in the current market. This price per foot will afford some hardwood floors, custom cabinetry, granite and a high-end appliance package, if you spend wisely.

Some homes on the island have been built for as high as \$1,000 per square foot. Those sellers that decided to sell after building their dream home at those levels may lose money as the current market rarely supports those extra fine improvements and unfortunately, all the receipts in the world do not make a home more valuable than the market is willing to pay. The buyers rely on the market approach to value – comparing similar homes available, more than the replacement cost approach.

Until such time as the home inventory decreases and the selection becomes a challenge to buyers, custom construction will not be considered the best financial option as compared to an existing home for less money. There are numerous advantages to purchasing an existing home and remodeling to a buyer. Those advantages include views, foot-print and other amenities such as guest houses and docks that current regulations make difficult or impossible.

To demonstrate existing versus new construction comparison, I've created two hypothetical options for a hypothetical buyer, these transactions are loosely based on real properties.

Option A: This week my clients can buy an existing west facing home on a .56 of an acre lot with 100 feet of high bank frontage. The waterfront home offers 2600 square feet with 2 bedrooms, 3 baths, a den, an attached 2 car garage with nice landscaping and very good sun exposure and views. The home was originally built in 1985 but has had nice upgrades over the years and currently has very modern interiors and appliances. The home has been on the market for 254 days and is currently offered at \$1,175,000. In the opinion of some buyers, it needs a remodel to add a master bath within the master bedroom area.

I believe my buyer may be able to enter into a contract with this seller at \$1,125,000. Sellers on San Juan in this price range are negotiating on average 4.4% off their list price at the time of sale but each property and its situation is unique. If my buyers were to purchase this home, they would need to spend the following to improve its condition to satisfy their requirements:

Master Bath	\$35,000
General Repairs	15,000
Total	\$50,000

Based on the improvements itemized above, their basis would be around \$1,175,000. In this market, it is not uncommon for homes to sell below their replacement costs in all segments of our market, not just homes listed in excess of \$1,000,000.

Other advantages of buying existing and remodeling:

- The lot may have been originally cleared back in the 1970s letting the sunshine in and widening the water views.
- Less time is needed for a remodel than to build a new custom home. Due to the regulations, the remodel permit process is less complicated than new construction.

Option B: If my buyer was unable to find a suitable existing home and decided to build custom construction their costs may be similar to the following:

Waterfront Lot .60 of an acre/100 ft	\$350,000 +
Main home 2600 sf @ \$350	\$910,000
Garage 528 sf @ \$75	\$ 39,600
Well	\$ 25,000
Septic	\$ 35,000
Power	\$ 5,000
Landscaping, driveway, patios	\$ 40,000+
TOTAL	\$1,404,600

This proforma under Option B for new construction assumes a nice level lot with a typical foundation expense. It also assumes none of the utilities had been installed which is not always the case. Many of the lots on the market have at least some or all utilities nearby.

The advantage of new construction allowed my buyer to construct exactly what they were looking for in a floor plan and use of materials. Unfortunately, they were not able to finish the home for 1.5 years and during that time, they had what seemed like an interrogation by their lender and had to interview three general contractors and architects prior to finding one they felt was compatible. During the construction period, they elected to make change orders which increased their costs and delayed the process.

Further, they had to hire a consultant to argue with the County over the storm water management plan and due to an Indian Midden, an archaeologist had to be retained. In addition, their well required a 4-hour drawdown as it was within 1000 feet of the shoreline and the drawdown could only be processed during July to October to comply with County regulations.

There were only two dead or dying trees on their lot that could be removed so their view remains filtered. Below is a photograph of their view from their deck which is approximately 110 feet back from high tide mark with the first 35 feet being a “no touch” buffer. They are able to trim up to 4% per year. They have yet to figure out how to measure the 4% and may have to hire an arborist to process the calculation and do the work.

As they used a federally insured lender, they had to pay \$2,500 in survey costs to prove to the lender and Corps of Engineers that due to the high bank, they were eligible for a Letter of Map Amendment and waiver of flood insurance.

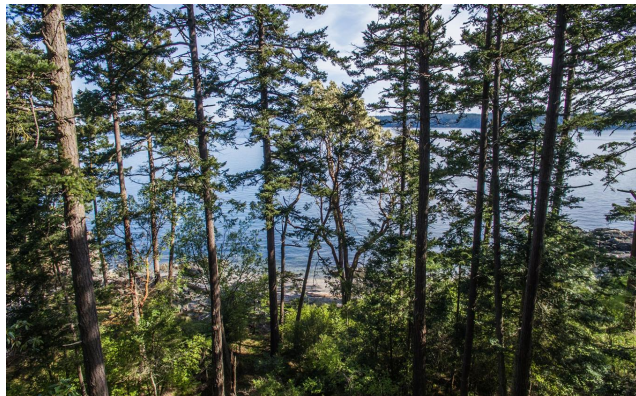
For some people, the new construction process can be very stressful however, a major remodel can be just as stressful, and both can be a character-building experience. Other people enjoy the process very much.

Of course, I have exaggerated the list of problems my hypothetical clients dealt with during the course of their construction and I admit that if all of these items actually happened during their project, they most likely would be stressed out.

Option B proforma would also apply to a “remodel by backhoe”. Basically, a nice lot with a tear down house should be considered as new construction as well. Of course, you need to add \$50,000+ in dump fees to the budget. The advantage is that the tear down cabin is most likely in a location closer to the shoreline and is considered non-conforming. You should be able to remodel in that location, but you may not increase the non-conformity, therefore you can build up or back, not to the front or side to side. There are other regulations that you must also comply with as well. Further, these types of properties were most likely cleared years ago so offer more sun and good water views.

Once the housing inventory decreases and we have upward pressure on prices and appreciation, then the separation between the cost of an existing home and new construction will be less as the price of an existing home will be higher. Supply and demand.

Sample View from a New Home with 110 foot Setback



Sample View from Existing Home



The fewer number of buyers currently interested in custom construction has not had an impact on the general contractors and related service providers; they are all very busy. Many are working on remodels and there are always people that are willing to pay for getting the exact home that they want for their lives. For many others, they are still able to find existing homes that meet their criteria at great prices.

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