

## Remodeling & Renovation Guidelines

Topics, architecture philosophy and a few general ideas about custom residential renovation projects.

In Southern California real estate values will always fluctuate. Right now we happen to be in a growth period with low interest rates. It is a great time to build – or to simply add on. While we continue in this growth period, the average real estate home prices will also vary. Depending upon which natural disaster, which areas are affected by flooding, storms, fires, earthquakes or other calamities, builders and the home-buying public perception pushes market values higher.

All markets are driven by supply, which entails higher investments and increases the renovation- and improvement construction demand. This increases construction costs, which makes residential values appreciate. We live in a world of fluctuating value cycles and renovating. It is a profitable approach to increasing your net worth if you understand the parameters. However, the main reason to renovate a residence is:

**1.) to influence equity value of your investment**

**2.) to improve your lifestyle in your home.**

Most clients do not engage remodeling because they like this process. Renovation is never an inexpensive proposition and often it is very stressful. Unless adequate funds are available, limit your financial exposure by insisting on clearly defined work and written construction bid costs. There is one rule in renovation and new home construction:

**It is always more expensive than your original budget expectation.**

A well-planned approach is likely to have budget shortfalls in unexpected areas. Prepare for this by being conservative in your estimates, hire licensed professionals with a proven track record, and receive multiple bids from local, licensed contractors for comparison. A great deal on low hardwood flooring can be secured for a later install date with a small down payment. Knowing your limitations and maintaining reasonable estimates minimizes the harrowing construction experiences. In the planning stage of your contract agreement give your parties a better foundation to calculate by listing your demands. Here's a typical renovation project cost:

- Construction Costs:	65%
- Site Improvements:	10%
- Professional Fees:	15%
- Permits/fees/taxes:	5%
- Contingencies:	5%
- Total Budget:	100%

Adding new space to a typical detached, single-family house in the City of Camarillo should cost approximately \$300 - \$400 per square foot, in construction cost. If there are no site improvements, no new pool, no terraces, no new driveway, gates and fencing, or new septic/utility, and landscaping/irrigation and drainage is adequate, no site improvement costs are necessary. The difference between construction costs and project costs involves everything, whereas construction costs do not include application fees, development taxes, permit fees and all professional services. Based upon the average home sales prices (listed in printed media by zip code region) you can expect home value improvements to range between \$500-\$1,400 for every "new" square foot added.

### **What if you just wish to improve on the existing square footage?**

This approach is about improving your lifestyle. Increasing your home's curb appeal always commands higher a sales price when you decide to sell. However, without considering land value, location or view, for every dollar you invest in increasing your home's square footage, expect a return of two dollars per square foot in the average assessed equity in profit.

### **What does Renovation offer?**

When you hire a competent architect you are engaging skills, which improve the aesthetic appeal of your home. While curb-appeal is certainly somewhat intangible, the 'desirable' factor of your home is not, as all potential buyers are

## Remodeling & Renovation Guidelines

Topics, architecture philosophy and a few general ideas about custom residential renovation projects.

comparing each home. This is a personal decision that varies from buyer to buyer. A beautiful house with similar square footage commands a higher market value than a 'standard' looking home. There is a high premium on professional services designs because of the broad appeal to many audience customers. Your architect's skills and a competent contractor will modify a more conventional design layout in ways you may not think of. Project timing is a critical factor affecting property development. Start renovation prior to leading economic indicators improving, since this affords higher profits upon completion- when the market is hot. In a slow real estate market residential construction follows a delayed rebound, which results in a "lag time" for prices to recover.

The single project housing construction is more affected by economic downturn than many other industries because of interactive trades and the competitive bid process. Historically, it is inevitable that residential values increase. Adding to your home at a time while contractors are scrambling for work is the best investment available.

### Hiring contractors

As an architect I am often asked during preliminary design phase how much will it cost? How much does a new automobile cost? Yes, this depends upon the Marque, the options and performance criteria. It is the same with architecture. Good design has higher costs and higher returns in value. I use a minimum \$300.00/sq.ft. as average construction cost, but this has to be qualified by the design and the scope of work. Construction costs depend upon the cost and installation of specific finishes, and architectural construction documents with clear and concise specifications.

Submitting four sets of architectural construction documents to four different contractors is guaranteed to produce bids that vary substantially. How is your architect supposed to calculate actual costs from such a diverse range? The same drawings, the same finishes, the same method of construction will have bids varying by 25-40% depending upon current workload, building material cost and the complexity of the project.

The construction process has many intangibles: All subcontracts vary, the quality of workmanship varies, and the homeowner contributes to these intangibles by adding a few small changes. Small changes add up in actual construction costs, because many other considerations are affected. Design features, re-stocking charges, dimensional modifications, functional considerations contribute to changes during construction. I recommend you have a budget reserve of 20% above the accepted construction bid before you agree to a contract. To reiterate, your communication skills between you, the contractor and architect is the single most essential tool to project success. Understanding the respective needs of each party of your contract is key to a successful project. The relationship and the communication between client and contractor represent one of the most important considerations of a project.

### Contract Terms

As an architect I am faced with many different approaches to contract terms. One of the most common questions is: What type of contract format is the best to use for remodeling? This consideration largely depends upon the current market conditions, the type of project and the scope of work to be completed. Here are some examples:

#### Fixed Flat Rate Contracts

A fixed price contract is defined either by a percentage of estimated construction cost or as a flat, stipulated fee. I recommend that you opt for fixed price contracts, with a defined completion date, with clearly indicated profit and overhead fees, and a guaranteed timetable, tied directly to the contractors' construction payment schedule. With a guaranteed payment agreement specifying payment amount and due date, the job most probably will be completed at the specified cost and on time.

#### Time & Materials Contracts

A time and material contract is defined by the daily, weekly, monthly hourly billing rate of all employees, with a direct expense reimbursement for materials, services and work completed for your project. The contractor then adds flat percentage fees for supervision, management, overhead and profit. These factors are also often added to flat fee project rates for unexpected consequences. The disadvantages to time and materials contracts is that the owner has no idea of the actual final costs, and inherently there is no incentive for your builder to save on materials, or to complete the scheduled timetable as quickly as possible. I typically choose to use time and materials deals with small scope of work projects where limited exposure and fast completion is paramount.

## Remodeling & Renovation Guidelines

Topics, architecture philosophy and a few general ideas about custom residential renovation projects.

### Percentage of Construction Costs Contracts

In slow economic periods a construction budget has fewer margins for errors, omissions or in dealing with poor construction management. You don't know about shortfalls until you are in the process of dealing with this. A small job based on time and materials allows for a more easy transfer of contractors, if you are dissatisfied with work progress or quality of workmanship. The percentage of construction costs contract provides for changing Scope of Work, adding on additional areas for improvement, or modifying construction methods due to discovery.

If the economy is in a rapid-growth cycle, where an abundance of projects are being offered and built, contractors are more difficult to pin down with restrictive flat-rate bids because of their high work load, and client demand. Such conditions suggest a time and materials contract cost basis. The contractor must be in the position where he is eager to complete your job as quickly as possible so that he can engage other projects. With his efficiency predicated upon the quick turn-around, he will seek to complete your job as fast as possible. All general contractors have padding calculated into each cost to cover unforeseen expenditures, delays, or miscalculations. This is termed as "overhead", calculated usually at 10-15 % of total costs. A good profit is essential to every business. When it becomes easier to walk away from a very difficult and time consuming job, rather than to absorb financial losses due to gross underbidding, the contractor will chose the former - at the expense of the client. Know your bid costs, understand your specific project parameters, specific subcontractor break-downs and scheduling and understand the person who prepared it. The small, family run contractor business cannot afford uncalculated losses as well as established large firm, the latter will command higher pricing and overhead estimates in their bids. For efficiency sake, it costs less to build more square footage in additions.

- Hire licensed professionals, with references and credentials
- check references provided
- ask project-pertinent questions
- use industry standard, written contracts
- never get ahead of actual work progress payments
- place all additional services agreements in writing
- limit modifications to the scope of work during construction

It is important that you know how to address service additions and change orders. Hiring a competent, creative, knowledgeable architect it is the first step in the right direction. The cost of fees for competent professionals represents substantial construction cost savings, and much better project completion criteria. Remodeling is an exciting and gratifying experience as long as the budget, timetable and contract obligations are clear.

About the author: Quentin Dart Parker is a CA registered architect with the Somis-based architectural office of ARCHWORK, specializing in single-family residences, remodels and renovations. For over thirty-seven years he has an extensive track record of completing architectural projects throughout the Westside communities. For more information please contact their office at (310) 801-8660 or by email: <q.parker@icloud.com>