

KELSCH CONSTRUCTION



The Truth About Budgeting

THE FRUSTRATION

The client/builder relationship often starts as an adversarial relationship behind the mask of lies. The client presses for a per-square foot price and the builder too often gives a low estimate to get the job. We call this bait and switch. The builder tells the client what they want to hear and they both engage in a lie.

Builders bait the client with a lower price and the client signs the contract without reading the details.

If you want to know why so many clients tend to hate their builder at the end of the project, it all starts at the beginning in choosing between a cost plus contract verses a fixed price contract. Here are the facts and differences.

Cost Plus

- Cost plus builders show every invoice and every receipt.
- The client, not the builder, is in control.
- Cost plus builders charge from 10-15% on all costs to build the project, sometimes more for as-built projects
- Cost plus builders tend to push for padding and contingency in the budget, which means a higher budget at the start.
- Cost plus builders have higher budgets, but they have a greater job satisfaction at the end.
- Cost plus builders are more focused on quality.
- The only downside is they are less incentivized to save where possible, however change orders are easier to make and can happen for the most part without a heavy cost.
- Cost plus builders work with allowance figures in their budgeting, which gives you freedom to pick finishes and materials from any supplier as long as they fit within that budgeted allowance.
- Kelsch Construction is strictly cost plus.

Fixed Price

- Fixed price builders do not show every invoice and all receipts.
- The builder, not the client, is in control.
- Fixed price builders can pocket up to 23% on all costs, even more in many situations.
- Fixed price builders are known for increasing costs later and not giving a realistic budget at the start.

- Fixed price builders are more focused on saving or the cheapest path to build, because they pocket the difference. Quality is not the focus, cost is.
- If a home is contracted to build at \$355,000 and the builder can build for \$225,000, they pocket the rest.
- If you want an upgrade, they charge for it, and change orders are typically costly, no matter the size.
- Major developers are strictly fixed price, because they build the same home over and over, they know the real costs, but they also charge higher than normal for upgrades, sometimes 40% higher.
- Fixed price builders give you specific materials and finishes, however they control where materials are purchased and the price of those materials.
- Fixed price can be good for remodels.
- Kelsch Construction refuses to build under a fixed price. For clients needing a custom home built, building as a fixed price is not in your best interest unless you know what you are doing.

Budgeting Advice

When creating a cost plus budget for a new custom home, it is recommended to have at least 10% contingency. This means, if the total budget to build is \$550,000, then 10% of that amount would be \$55,000. This would then be added to the budget, making the final budget \$605,000. If you do this, you will like your builder at the end. You will be under budget, if the builder is organized. Most builders budget at zero. They enter every cost, every bid and every estimate as it comes in and yet they know better. They know something was forgotten and they know the bid was inaccurate, even despite this they budget every line item to zero with no contingency. At the end, their clients will never refer them

Kelsch construction factors a 10% contingency in the budget, and most lenders require this. We also factor a small contingency in excavation, concrete, framing lumber and framing labor. As a result, we are typically under budget 95% of the time. In the early days, when Keith was building for the USDA, he build 63 homes in three years and all under budget because of this practice.

Start realistic and you are better prepared for the hiccups in costs when building a new custom home. Set the budget and save against it, but do not try to save in the budget at the start. Instead, work to save against it through the process.

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