



UNDERSTANDING “PRICE PER SQUARE FOOT” FOR NEW HOMES

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As expected, clients have many questions during the initial meetings regarding their new home construction process here in Austin, TX. One that comes up frequently involves cost per square foot. Understanding key components should help bring clarity to this topic. This article addresses building size, living area and covered area delineations.

For years real estate agents, appraisers, inspectors, taxing authorities and buyers have focused on property value as a price per square foot of the living area. Before computers did all of the work, real estate and tax appraisers would simply measure the exterior of a home, then deduct for the garage and the front porch to determine the “living area”. Today the calculations are more precise, but they measure the same thing.

During the initial meeting with clients we discuss the cost per square foot of a new home. This helps them understand during the design process how their wish list affects “living area” costs. The first step is to understand the relationship between the living area and the final building size. This discussion seems to be the most educational for our new customers.

Most think that 5,000 square feet is 5,000 square feet. If one plan has more garage bays, a large covered front porch and an award winning outdoor living area, the covered area (or building size) will be larger. This extra footage in some cases costs a builder more per square foot to build than a bedroom, game room or family room. Wood ceilings, exterior columns, flagstone floors, weather proof light fixtures and ceiling fans combined with outdoor kitchens and audio visual equipment are all expensive. When comparing price per square foot of a 5,000 square foot home, all of these costs must be included in the budget, however none of the square footage of these areas is considered in the price per square foot of the living area analysis.

Knowing this relationship between living area and covered area typically does not change the new home design. It does however help clients understand the cost of their new home as it is being created right in front of them. As demographics change and kids move out, more people are interested in downsizing their home. Our typical empty nest client will tell us that they only need 3,000 to 3,500 square feet for their new home. However, they still want a three car garage and an over-sized outdoor living area. Now, these same costs have to be spread over less living area footage. The bottom line is that smaller homes cost more per square foot to build than larger ones since there is less square footage to divide the fixed costs into (driveway, garage, land, covered porches and patios, landscaping, etc.). The relationship between a building size and the living area of a home is a major driver in both cost and price per square foot.

Numerous other factors can affect costs going into the price per square foot conversation. The next factor we will discuss is something builders refer to as development costs. This specifically relates to what it costs to construct a new custom home on one site compared to another. Items such as soil con-



dition, topography, vegetation, utility location and availability, city and community requirements are all examples of variables which greatly affect the cost of a home. For example, a flat lot with average tress, no fill, sewer, water, power and cable TV available at the site, in the county (vs. an incorporated city) will typically produce the lowest possible construction cost. Moving away from these variables can increase the cost to build a new home, without adding any additional footage, features or any fun stuff to the home.

Topography is another factor. While sloping lots on hillsides typically provide panoramic vistas, these views come at a high cost to the overall project. Topography affects many costs, including the foundation, exterior masonry (on one of our homes the stone mason had to scaffold up 10 feet to get to the bottom of the home), utilities, landscaping, pools, driveways and not the least of which tractor work, retaining walls and excavation. Savvy custom home Realtors get a professional builder involved in a client's land purchase before the final decision is made. Lot cost versus lot price is the point here. A \$75,000 lot can be less expensive to the project than a \$50,000 lot.

In addition to home site variables and the overall building size, building designs also play a significant role in the cost of a new home. Let's begin with this basic geometry example. If you draw a perfect square with 10' on each of the four sides, the box contains 100 square feet. Easy! If you draw a rectangle that had 50' on the long sides and 2' on the short sides, the rectangle would still contain 100 square feet. Easy again. However, to build the first 100 square feet the builder must pay for 40 linear feet of exterior wall space (framing, drywall, insulation, stone, baseboards, etc.). To build the second 100 square feet the builder has to build 104 linear feet of exterior walls. While this example is extreme, it still proves a point. No one can build 40 feet of walls for the same price as 104 feet of wall space. When you connect these dots it's easy to understand how production builders offer homes at affordable prices. They build square homes on level lots.

Lastly, two-story homes are less expensive to build than one-story homes. Two-story homes enable you to build on the foundation twice, under the roof twice, use shorter lumber, electrical wires, heating and air ducts, plumbing pipes, and more. However, back to our topic of cost per square foot... When a one-story 3000 square foot home is offered for sale next to a two-story 3000 square foot home there is no consideration in comparing "price per square foot". Once our custom home clients understand this, even those who began discussing a one-story home, often ask us to put a couple of bedrooms upstairs to reduce "costs".

In the prior discussions on the topic, we covered plan design and geometry, development costs and the effect of outdoor living areas in the new home budget. So, the question of "how much per square foot can you build a 4,000-square foot home for" is essentially unanswerable without more information.

Some of that information will come from you, the home buyer. Specifically, what features you want in your home.

Let's examine a few line items. For the purposes of this exercise, we will stay with the example of a 4,000 square foot home. To upgrade from a composition shingle roof to either a tile or metal roof on our subject home will cost approximately \$30,000 more at approximately \$7.50/ per square foot (PSF). To change from high efficiency, low E vinyl windows and exterior doors to a clad wood window and door system you will need another \$40,000 at \$10/ PSF. Today people don't use carpeting nearly as much. The result, wood, travertine or other natural stone products and many tiles are easy \$10/ PSF more to buy than "nice" carpeting. Over the entire home, add another \$10/PSF to the total cost. Cabinets have morphed into another expensive line item all together! Today buyers want cabinets in virtually every room...custom designed cabinets that are stained and with all of the bells and whistles that are now available. You guessed it, another \$6 to \$9/PSF, garage sizes, patio floor covering, lighting, kitchen appliances (one customer spent \$7,000 on her refrigerator), trim details and many other owners selected items to affect the final number of our original 4,000 square foot home.

The bottom line is, giving you a "price per square foot" of a home in Greater Austin without knowing much more about the factors discussed in this article is virtually impossible for us at Zbranek & Holt Custom Homes. Or anyone else for that matter!

How much per square foot is greatly determined by the location of the new custom home, the size, the design and features in the outdoor living area, as well as the overall finish out selections. If someone quotes a price per square foot of a new home without seeing the site, building or finish out) they are making assumptions in these areas that may not be valid for the subject project.

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