

Beware of Being Your Own Home Builder

Homeownership is the foundation of the American Dream, and in today's do-it-yourself culture where how-to advice for just about anything can be found on the internet, many people think they could save a lot of money by building their own home. But your home is likely the single largest investment you will make in your lifetime, and not hiring a professional home builder could be a costly mistake for many reasons – financial, emotional, and physical.

Getting financing is an important consideration. As a self-contractor, lenders have strict guidelines and limits on how much money they will give you, and they will require that you provide house plans, specifications and an itemized list of documented costs and bids beforehand.

Even if you feel that you have enough cash to do the job, it is wise to get a loan to cover material or labor cost increases, upgrades or material overruns. Many mortgage companies will not lend money to cover unanticipated costs on a home when construction has already begun.

There is a huge amount of bookkeeping if you act as your own general contractor. The IRS requires that you send anyone you hired to work on your home –subcontractors—who earned over a certain amount a 1099 form at the end of the year. You'll have to be on site to document delivery slips, check for inaccurate billing and track material returns in order to stay on budget.

Professional home builders are experts at the logistics and timing of building a home.

It is an exact science to make sure permits are applied for, materials are ordered and delivered, subcontractors are hired, utility deposits are paid, and inspections are scheduled at exactly the right time. Even if you're very organized, it is a process where many things can go wrong and a delay could cost you thousands of dollars and a lot of stress.

Building your own home is a risky proposition from a legal standpoint, as well. Home builders carry Builder's Risk, General Liability and Workman's Compensation insurance on their building projects. As a self-contractor, you will have to assume most, if not all, of the same liabilities. You may want to consult with an attorney regarding potential liability issues, and with an insurance agent concerning appropriate insurance coverage.

Home builders have staff to take care of all the details of building a home, and established relationships with other professionals to complete the job, which is why they can build a home in a relatively quick timeframe. For example, to build an average 1,500 sq. ft. home, you need to be prepared to spend at least 35 hours per week for at least five or six months, and most people don't have jobs with that kind of flexibility. You will also need the time to determine and order the materials, evaluate bids, and hire and schedule qualified, licensed, insured and/or certified subcontractors.

Finally, if you sell the home you've built, you may be responsible for any defects that are discovered afterwards. As the home's builder, you or your estate may be responsible for claims brought by subsequent owners of the home.