



Providential Custom Homes



Understanding “Price Per Square Foot”

Do you truly understand what you are asking when you ask the question, “How much per square foot do you charge to build a house?” Let’s take a little deeper look at this question.

When contemplating buying or building a new custom home, there are some basic ground rules and we will go over in detail why we make these recommendations. Most people make comparisons when looking at a purchase of this magnitude so when you do, follow these recommendations:

- 1) Don’t compare the value of different homes based solely on the price per square foot;
- 2) Take into account all the square footages or total area under roof; i.e. garages, covered porches & patios, unfinished bonus rooms, etc...;
- 3) Compare All the amenities between different homes – everything costs money;
- 4) Depending on ***LOCATION*** the homesite could range from 10% up 30% of the total amount you intend on investing on your new home;
- 5) There are 4 primary aspects of every home that will either cost you or save you \$\$\$\$ Money!

#1 Your Homesite – The cost of the homesite and the cost to prepare it.

#2 The Square Footage – The more you have the more it cost.

#3 The Amenities – The quality and quantity of your selections can dramatically affect the overall cost.

#4 The Degree of Complexity – The more complex the design of the home, the more it will cost to build. Of course, the opposite is true.

MOST IMPORTANTLY, don’t stress out! This is supposed to be an enjoyable and rewarding experience. It is our goal to help reduce, if not eliminate the ups and downs in building or buying a new home.

Now understanding why this question is the most misunderstood and misused method of determining the relative value differential when comparing the prices of New Custom Homes! It is absolutely impossible to answer this question accurately because of the many components and variables involved in building and pricing a new home. We are here to help educate our

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home buyers so that they can accurately determine the true value of home based on the accurate information given to them by sales consultants or builders.

Contrary to popular belief, the price per square foot is not an accurate indicator of the price of a home that has yet to be constructed! This mistaken method of pricing a home used by so many should not be used this way because *Price per square foot is always the END RESULT, not the beginning!* Determining the price of a home simply by dividing the price by the Total Living Area Square Footage of the home is such a simple mathematical formula. In actuality, the true equation for determining the cost of a home is much more complex than perceived by so many. This misconception from truth has caused much confusion among millions of prospective homeowners. Determining the true price of a home is made by “Costing Out” all the associated components and amenities of the home, as well as the price for the homesite, factoring in profit margin and then adding up all the total of all the variables. It may not seem like rocket science but the equation can get more complex when you break down “Cost Variables” from Contractors and Suppliers/Vendors.

Contractors and Suppliers/Vendors use different pricing techniques for determining how much it will cost them to build a specific project. Some use the Total Living Area Footage or Air Conditioned Space, some use Sheet Rocked Area Footage, some use Total Area Under Roof Footage or Framing Area Square Footage, and some have variations on these totals for determining costs. For example Framing Area Footage can vary if you have unfinished bonus rooms or partially finished bonus/game rooms because the Framing Contractor will charge for this area but many of the other contractors will not charge because it is unfinished. This is just one example of how pricing can vary from project to project. With this being just one example of how complex this process can be for determining price, you can see that to accurately determine the price of a home is not a simple or easy process. There are no “quick” answers.

In determining the price of any home there are at least 100 different primary or major construction phase cost categories that affect the construction budget, as well as approximately 500 additional secondary cost considerations involved in every home. There are even incidental costs that must be accounted for when building a new custom home.

Here is an example to consider. What brand name of appliances will go into the home? What Series? (Base grade, Standard, deluxe, stainless steel?) Double or single ovens? Updraft or downdraft? Gas or Electric? Smooth Cook-top or Coil? Built-ins or stand alone? Carousel or Fixed table microwave? 1/3 or 1/2 Horse Power disposal? How many cycles for the dishwasher? The possibilities can be endless and it is up to the Home Builder to accurately determine what the costs are and properly account for them all.

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Here is another example dealing with a Lighting Package. Custom Home “A” and Custom Home “B” have the exact same light package when constructed. Let’s use the price per square foot method to determine the value. Our Lighting Package cost is \$3,000. Custom Home “A” is 3200 square feet. Custom Home “B” is 3500 square feet. Using the price per square foot theory, the Lighting Package in “B” breaks down to \$0.85 per square foot. (\$3,000 divided by 3,500 square feet). Now being the average buyer of today, I assume the Lighting Package for “A” should only cost \$2,720 because I use the \$0.85 amount to calculate the price, (3200 square feet X \$0.85). I would typically think I should be paying about \$300 less for Custom Home “A”. So, hopefully you can see why price per square foot from one home cannot be used to accurately calculate the price of another.

As mentioned above, price per square foot as commonly used in the industry is the sum total of all associated costs and sales pricing of a home, divided by that home’s “Living Area Square Footage”. This is where the inaccuracy begins! Because of the numerous differences in the “Total Area Under Roof” from one home to the next, just using the **“Living Area Footage”** or **“Air Conditioned Space”** as the ONLY divisible generates so much confusion and misinterpretation.

Example: You are considering two homes both having 3,500 square feet. Home “A” is priced at \$350,000. Home “B” is priced at \$402,500. Why the discrepancy in price? The typical buyer of today would say Home “A” is \$100/square foot based on \$350,000/3,500 square feet. Home “B” would be \$115/square foot based on the price per square foot theory of \$402,500/3,500 square feet. At first glance there appears to be a big difference in price per square foot leading a typical buyer to assume that one Builder is charging more per square foot to build homes verses the other. But in reality Home “A” has an additional 800 square feet in covered porches and garages. Total Area Under Roof is 4,300 square feet. Home “B” has an additional 1,500 square feet in porches and garages. Total Area Under Roof is 5,000 square feet. Can see how this can be very misleading?

Since price per square foot does not take into account many of the other varying attributes of a home, you can see why it does not give an accurate representation of price. **Many of these amenities and attributes associated with the home’s beauty are either overlooked or at best unmentioned in the overall cost.**

A far more accurate measure of price for a home is to use the **“Total Area Under Roof”** as the dividing factor. Based on the above example, using this method Home “A” would cost \$81.39/square foot (\$350,000/4,300 square feet). Home “B” would cost \$80.50/square foot (\$402,500/5000 square feet). Now which home appears to cost more? The end result of this

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method is a far more accurate assessment of value with consideration of all the aspects of the home and, as you can see the actual difference in price per square foot is nominal.

The price per square foot figure that is attained on a particular home cannot be used to determine price or value of another home ***unless the homes are 100% identical!*** The best use of the price per square foot equation is to determine the “**general price range**” in which different homes fall, however, the range can vary as much as \$20/square foot and still be considered “**comparable**”.

It should be also understood that smaller homes with upscale amenities generally run more per square foot than do their larger counterparts. This is because the mathematical divisible (square footage amount) is less, thus the ratio changes. Larger homes with more basic amenities will ultimately cost less per square foot than smaller homes with more amenities.

There are only about 18 construction phases out of about 100 phases, on any home that could be accurately broken down or which are priced-out on a per square foot basis.

- 1) Foundation
- 2) Framing Lumber
- 3) Framing Labor
- 4) Roofing
- 5) Electrical
- 6) Trim Materials
- 7) Trim Labor
- 8) Insulation
- 9) Sheetrock
- 10) Tape-Bed-Texture
- 11) Paint Materials
- 12) Paint Labor
- 13) Carpet
- 14) Wood Floor
- 15) Tile Floor
- 16) Stained Concrete Flooring
- 17) Trash Hauling
- 18) Interior Clean Up

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When a Custom Home Builder begins the process of costing out a new home, he will first break the home down into 5 different categories of square footage. Living Area Footage, Sheet Rocked Area Footage, Foundation Area Footage, Under Roof Footage, and Framing Area Footage. Many contractors and suppliers use these different methods to determine the pricing of the particular part of the construction project. Some break down the cost even further, including: price per linear foot; price per face foot; price per yard; price per piece; etc...

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