

How To Guesstimate Your Construction Budget

Nailing down your approximate budget and priorities will save you thousands of dollars in the long run. What I'm NOT going to do is tell you how much a second story addition costs. What I AM going to do is give you a means of making some estimates based on average costs per square foot. If you want to know if your foundation can hold a second story, yes, you should call an architect. If you want to be able to discuss with your partner if you can afford even to CONTEMPLATE adding a second story, keep reading.

Your homework: In order to do this you will need a few things

1. You should begin by getting your priorities in order. I wrote an entire blog on organizing priorities which I encourage you to do in conjunction with this.
2. Determine the cost per square foot to build in your area by averaging two numbers:
 - First number: We want to determine the average cost per square foot of comparable homes in your area. Find recent comps of homes similar in size/style that you would like to build. Ask a realtor, look on websites like Redfin, etc. Next, you should be able to look on the county assessor's website (or call the office) to break out the cost of the land from the cost of the structure. You only want the cost of the house without the land for this exercise, because the cost per square foot to buy a home (which includes the land) isn't what we are after. You want the cost per square foot to build, so all you want is the price of the house without the land. I realize it won't be exact (the assessor's numbers aren't spot on), but later we average this number with information from contractors to make it precise enough for our purposes.
 - i. For example, we are going to use a 1500sf home that recently sold for \$400,000.
 - ii. If the sale price of a home in your area was \$400,000 and the approximate price of the land shown on the assessor's website is \$100,000, the cost of the other improvements (the house) is \$300,000.
 - iii. Divide the cost of just the structure by the area of house to get the cost per square foot of the house. ($\$300,000$ divided by 1500sf house = \$200/sf.)
 - Second number: Call a few RESIDENTIAL contractors and ask what they believe to be the average cost per square foot for average construction in your area. (Let's say he or she recommends using \$150/sf for construction costs.)
 - Average the two: I suggest averaging the two because you want to build on par with what is around you, and this will help localize the cost suggested by local contractors for the general area. ($\$200/\text{sf} + \$150/\text{sf} = \$350/\text{sf}$ divided by 2 = \$175/sf)

3. Calculate the area you want to remodel. I will go into this in detail below.
4. Multiply the area from #3 by the average cost per square foot from #2
5. Sit speechless in total disbelief for awhile
6. Repeat the process to find your error
7. Realize there was no error
8. Add a 10% contingency. See my blog post about contingencies for more information.

I'm not trying to scare you, but 9 times out of 10 the numbers will seem shockingly high. If you were not surprised at all, then you've just graduated magna cum laude. Put this information away, and go begin your project. If you were shocked, keep a few things in mind:

- Construction is expensive, and this doesn't include architectural fees, permit fees, engineering fees, etc., so if your numbers seem high, just stick with it for now, because I guarantee it can't be way off if you did your homework above.
- You are using this same method to determine the other possible project options to compare and contrast. Meaning, if you use \$175/SF to figure out what your partner wants to remodel, and \$175/SF to determine your ideal set of changes, then you will still have a means of comparing the two things in a realistic manner even if the price isn't totally accurate. This will allow you to start making REAL decisions about where things fall in your list of priorities.

SIDE NOTE about Kitchen remodels:

Kitchens are the most expensive room in the house. Using a cost per square foot analysis will not work if all you are doing is a Kitchen. You will have to do more specific research on your actual cabinets, materials, appliances, etc. There are a lot of Kitchen remodel shows and websites to check out if that is your main goal. There is no reason for me to regurgitate HGTV here.

Homework item #3 expanded: Calculate the area you want to add/remodel

The goal here is to get an approximate idea of how much space you will need to **add** OR **change**. Notice I am lumping together both the space you are adding and changing. You will be surprised to hear that many times it is actually cheaper to build new than it is to remodel. Please wipe the look of disbelief off of your face. If you think about it, how long do you think it takes to cut sheetrock to fit crooked old walls, mud over the lumps and waves, hang new plumb/level cabinets on them and marry it all together so the curves on the walls don't stand out like sore thumbs? Forever. How long does it take to rip it down completely, reframe and erect plumb walls and cabinets? It takes a lot less time, and time is money. See what I mean? No? Well, actually, it doesn't matter for our purposes because again, we are just trying to get you into a stratosphere where you can begin analyzing options in order to make decisions. I recommend you follow my instructions, and lump together both the space that you are adding and the space that you are changing for now.

1. The first thing is to determine the area to include in your calculation. Keep in mind this doesn't have to be exact, as we are just trying to get you CLOSER THAN YOU ARE NOW to some basic budget assumptions.
 - IF YOU ARE ADDING ON: You can either use the length and width of similar rooms in your (or your sister's/friend's/etc.) house, or you can look online for average room sizes by name. Any means that is convenient for you will work for this first round, as you will soon see. You also have to add a bit to the calculation for area damaged when you attach the old to the new. If you are adding a second story, then add the area of the staircase that will inevitably eat into the existing space. If you are adding on to the back of your house, then add the area of the wall you are demolishing to connect the old and the new. If you are blowing out the Kitchen to add on, then add the entire area of the Kitchen. Trust me, make an assumption and move forward. Even if you have NO idea how the layout will work, it doesn't matter for this cost per square foot analysis because adding a 12x12 bedroom will still be \$175/sf, regardless of whether you add it to the north or south side of the house. I realize that blowing out your Kitchen to add the bedroom will be more expensive than blowing out your office. Yes, you will need an architect to get to that level of detail, and if that is what you are looking for, then you've come to the wrong place. If you are totally clueless about where to begin (you aren't alone as this is the first thing out of the mouths of many of my clients when we meet), then read on.
 - IF YOU ARE JUST REMODELING AND NOT ADDING ON: This is easier. You can just measure the spaces you are remodeling.
2. Multiply the area of your remodel/addition by the cost per square foot you determined above in #2.

Now that you have your budget calculated, you and your partner will do one of two things:

OPTION 1: Realize that you might be able to do your project AND go on vacation!

OPTION 2: Realize that you can do your project only if the architect can figure out a way to make it work without blowing out the Kitchen, which you can't afford. However, look at what just happened!! **You just saved hundreds, if not thousands of dollars!**

MAIN POINT ALERT- DON'T MISS THIS: You have a means of giving an architect your priorities AND **you did it in a way that didn't require:**

- Paying your architect to draw up ideas including schematic design, plans, elevations, models, etc.
- Losing loads of time getting drawings nailed down and waiting weeks (if not months) to get multiple bids from contractors
- Waiting/paying to have your architect do another round of drawings that is more in line with your budget

The main point of this is to give you a means of assigning approximate price points to various options in order to compare and contrast, and ultimately realize a strong set of priorities. This will allow you to go to any architect and say, "We would like A, B & C, but we realize that we

can only afford A & B unless you can come up with a cost effective way of doing everything in our budget.” This tells your architect two key components: An idea of your budget and most importantly, your priorities. Having these two things flushed out will save you thousands of dollars in fees and time so you can spend that money on the fun stuff!