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DOLLARS

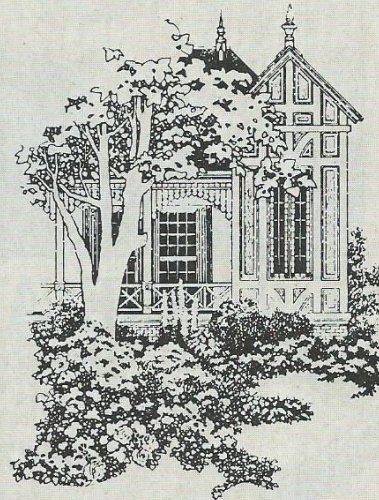
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FOR DESIGN

When Joan and Craig Carbrey bought a stunning, oak-studded lot overlooking Folsom's Lake Natoma in the American River Canyon two years ago and began construction on their 3,600-square-foot custom home, they knew there would be some rough times. □ Although Craig is a commercial and residential land developer with considerable construction knowledge, his professional expertise made the task no less harrowing. "First," says Joan, tongue-in-cheek, gazing at the spectacular view from her new living room window, "you make an agreement with your husband that you will not get a divorce until it's over." □ Determined not to live in interim rental housing, the Carbreys moved in as soon as their former house sold, in the midst of the important "finish work" on the new house, just before Christmas 1987. □ "The price you pay for that is having someone walking around your house all day with a toolbelt," Joan recalls. "The one thing you don't want to rush is the finish work. You rush it, and it looks like it." □ "We had a list of corrections that was pages long," she says. "It seemed like everything we touched broke. The shower door broke. A toilet flushed downstairs by itself. I turned on the dishwasher, and it leaked all over the wood floors. *All* of the plumbing leaked and had to be replaced. It was all corrected, but I thought I would go nuts before it was over." □ When Dana and Bill Kelly decided to build their dream home several years ago, the young couple hoped to avoid any disasters. Despite a rocky start when the first plans were unusable, their project has proceeded largely without incident. And, with no previous professional homebuilding experience, they have made the unusual decision to hire their own subcontractors—and to do much of the work themselves. □ Bill, 28, and Dana, 30, both hold business degrees and work full time—not the usual profile for people who hire their own electricians, cabinetmakers, drywall installers and bricklayers. The couple also plans to do all of the pains-

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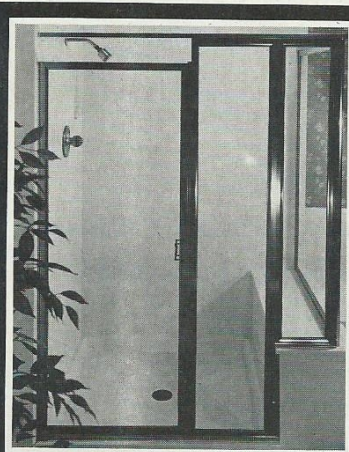


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taking "finish work" themselves, including electrical finishing, cabinet staining, all painting and landscaping. They also plan to build a backyard redwood deck.

When they finish, they expect to have a 2,660-square-foot Roseville custom home worth nearly \$300,000, and which cost them approximately \$235,000.

"It's a dynamite location," says Dana. "If it ever turns out that we're in over our heads, we always have the option of selling." Having sold their Citrus Heights home to help finance the new house, the Kellys are currently renting from Bill's mother in Carmichael and hope to be in their new home by Thanksgiving. By then, they will have learned—sometimes painfully—myriad, invaluable lessons in what *not* to do when planning and building a custom home, and how to avoid some of the innumerable legal and financial quagmires that routinely trap custom home buyers/builders.

Throughout their project, the couple has had the help of custom home builder Garen McCune, a longtime Sacramento contractor, who has built more than 200 custom homes in the area and heads the Custom Home Builders and Remodelers Council of the Sacramento Building Industry Association. In an unusual arrangement, McCune supervises the overall construction of the Kelly home (which McCune's wife designed after the first designer's plans were found to contain major errors) and reviews their arrangements with subcontractors.

Ordinarily, the contractor hires the subs, and not all builders are as accommodating as McCune. "It's a unique situation," says McCune. "So far, they [the Kellys] have been a delight to work with."

To prepare for their participation in the project, the Kellys took an owner-builder course through the Learning Exchange, and Bill took additional courses in hands-on building projects.

The Owner-Builder Center of Sacramento also teaches courses in homebuilding, says Cindy Smith, assistant vice president. Fees for classes are charged on a percentage of the total building costs.

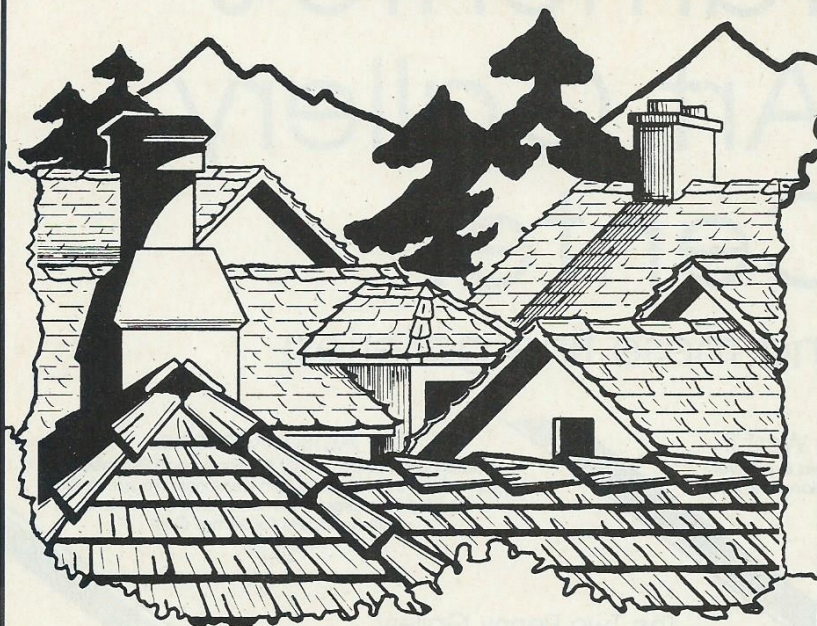
The Kellys had an additional bonus: Many of the subcontractors are their friends, so they are getting reduced rates on some aspects of the construction. The financially astute young couple also owns a duplex, and one of their tenants is doing the tile work on the new house.

"Even if it's a friend, always get a contract," Dana cautions. She also advises signing a lien release, a legal document protecting the homeowner from liens on his or her home by subcontractors not paid by contractors.

She has other caveats to offer would-be custom home builders as well:

- "When you sign any contract, know exactly what you want. Any changes

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could kill you. Really sit down and plan it out before you do it. We didn't expect it to cost as much as it did, and we went over [budget] about 10 to 15 percent. That's OK, but if it had been 20 to 25 percent it would have been out of our ballpark.

- "You really need to price things out. We got hit from left field on overall construction cost. Be sure you know about any fees [which vary depending on location and age of an area]. In Roseville, we paid \$13,000 in permit fees. Had we known about it in the beginning, I don't think it would have altered our decision, but it would have prepared us. It's primarily a problem in newer areas."

McCune says major dissatisfaction with custom home builders—or outright builder fraud—is rare in the Sacramento area, a view supported by officials at the state Contractors Licensing Board, a division of the state Department of Consumer Affairs, which licenses contractors and investigates complaints. But custom home buyers are prey to all sorts of potential disasters of design, construction, and financing especially resulting from naiveté. The first building designer hired by the Kellys, for example, did not visit the site and failed to account for a large slope. The couple kept the plans and hired another designer to modify them.

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"One of the most important things is to check out the general contractor," says Sacramento real estate lawyer Daniel G. Nauman, who chairs the real property section of the Sacramento County Bar Association. "Call the state Contractors Licensing Board to make sure they're licensed. Talk to others they have built for. Your contractor is going to be your point person, responsible for hiring subcontractors. You need to work with the bank to make sure the subcontractors are paid; otherwise mechanics' liens can be filed against the house."

"Some people just assume that [building a custom home] is done every day, and it's not," he says.

Like any business, Nauman says there are "good and bad" people in the custom home building industry. "But there is substantial regulation, and the licensing board does go after contractors and subs who create problems, although that doesn't help you after the fact."

Sondra Vaughan, who heads the licensing board's northern regional office in Sacramento, says there aren't many complaints on custom homes, with most problems reported to the board involving remodeling operations. That may change, however, because the custom home market is becoming more active in Sacramento, which she describes as a relatively low-priced market. "You can get a custom home for less than \$200,000 or even \$125,000 [in the Sacramento area], which would be a development home in other parts of the state," Vaughan says.

The biggest problem the board sees, according to Vaughan, is "people doing it themselves, hiring the subcontractors. We caution people that if they're going to be an owner-builder, they [must] understand what they're getting into; they must be really familiar with construction."

She also cautions buyers to keep close tabs on financial arrangements, making "progress payments" as work is completed. "Whoever controls the money controls the job," she says. Buyers should not make the final payment to the contractor until they have a lien release from every subcontractor.

"You have every right to go to the contractor and ask for proof that he has paid the roofer before you pay out the roofing increment," says Vaughan. "A good owner makes certain that he never puts out more money for the job than what's been performed."

Financing a custom home project is more complex than a standard home loan, since it often involves a combination of funds dispensed over a period of time for the purchase of land as well as construction of the home.

According to Tom Lowe, vice president and regional loan manager for Sacramen-

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to Savings and Loan Association, some people obtain loans for the land, which are later replaced or "taken out" by a construction loan.

"The construction loan can't go in place until construction begins," Lowe explains. "Sewer and water have to be in place—either paid for or approved—before construction starts, and most construction lenders also require a foundation endorsement, which means a title company has surveyed the foundation to be sure there are no encroachments [and] the title policy is lien-free."

Lowe says most construction loans will be at 75 to 80 percent of the final value, but no more than 90 percent of total cost—including lot acquisition, construction cost and "soft costs" such as fees, interest, supervision and overhead. "A lender may [finance] 95 percent of cost if that coincidentally equals 80 percent of value," he notes. "Some lenders only look at value, not cost, and will lend 100 percent of cost."

A construction "rollover" loan, offered at several local lending institutions, including Sacramento Savings and Heart Federal Savings and Loan, allows the construction loan to be "rolled over" into a permanent home loan, which simplifies the loan process.

"The whole process can be very time-consuming and very stressful," says Lowe. "There are all of these decisions to make about the lot and the house. I wouldn't want to go out and find another loan when the house is complete."

Homebuilders frequently must sell their current residences to get cash for custom home construction, living in rental housing for the interim. Sometimes lenders will take a second mortgage on the existing home to help finance the new home, so that owners won't have to move twice.

"There are different ways that lenders can do it to allow people not to have to move twice, to make the process as reasonable as possible and to try to not have them go into a rental," Lowe says. "In some circumstances that can't work, or a homeowner doesn't want to rely on the resale."

He says that a reliable contractor with solid references is the custom home owner's best insurance against financial, construction and design problems. It helps, he adds, if the contractor has a long-term relationship with many of the subcontractors.

"The whole lien process is a legal process to protect both the contractor and the subcontractor," Lowe says. The success of a project "all goes back to the first research [buyers] do on the original contractor, to make sure everything is copacetic."

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