REAL ESTATE EDUCATION SERIES

RE/MAX Properties

Home Construction Budgeting

Build a complete plan before you build the house

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A useful construction budget covers the entire project, from land and design through move-in. Start with a clear scope, obtain written estimates, and keep the budget current as decisions and actual costs change.

1 Define the home and your spending limit

Identify size, layout, finish level, garage, decks, and site features. Separate must-haves from optional upgrades. Set an overall funding limit and a comfortable monthly housing cost after completion. Keep a cash reserve available for costs the lender may not finance.

2 Evaluate the site before fixing the budget

Land price alone does not describe the cost of building there. Investigate soils, slope, access, drainage, excavation, retaining walls, utility distances, and any well or septic needs. Obtain qualified site advice and estimates before assuming a parcel is inexpensive to develop.

3 Get comparable, detailed written bids

Give bidders the same plans, specifications, and selections. Ask what is included, excluded, or estimated; how long pricing remains valid; and whether freight, taxes, installation, cleanup, and contractor fees are covered. Confirm who is supplying each material and fixture.

4 Separate known costs, allowances, and contingency

An allowance is a placeholder for a specific item that has not been fully selected or priced. Contingency is a separate reserve for uncertainty. Make allowances realistic, select finishes early, and do not use the contingency fund to make an incomplete base budget appear affordable.

5 Connect the budget to funding and the schedule

Include loan fees, construction interest, insurance, taxes, temporary housing, and storage where applicable. Ask the lender about draws, inspections, deposits, and required reserves. A delayed completion can raise costs even when the building scope stays the same.

Use cost per square foot as an early check

Confirm what the quoted figure includes and how area is measured. Land, site work, permits, garages, basements, landscaping, and financing may be treated differently. Detailed plans and local bids provide a stronger basis for a project budget than a broad square-foot estimate.

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A practical cost outline: include every stage once

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Use this outline to build your own line-item budget. Add project-specific costs and mark items already included in a contractor's price so you do not count them twice.

Cost group	Items to include or verify
Land and due diligence	Purchase, closing costs, survey, title review, soils testing, and site investigations.
Design and approvals	Architectural plans, engineering, energy documentation, permits, plan review, impact and association review fees where applicable.
Site and access	Clearing, demolition, excavation, rock removal, grading, drainage, retaining walls, driveway, and construction access.
Utilities and services	Tap and connection fees, trenching, service lines, meters, temporary power and water, or well and septic systems where needed.
Foundation and structure	Footings, foundation, slab, waterproofing, foundation drainage, framing, beams, trusses, sheathing, and associated labor.
Exterior and enclosure	Roofing, flashing, siding, masonry, windows, exterior doors, weather barriers, gutters, and exterior finishes.
Mechanical systems	Heating and cooling, ventilation, plumbing, electrical, service equipment, controls, and any specialty systems.
Interior and selections	Insulation, drywall, paint, flooring, tile, trim, stairs, cabinets, counters, fixtures, hardware, appliances, and installation.
Outdoor completion	Decks, patios, walks, final grading, fencing, landscaping, irrigation, and required site restoration.
Job management and support	Builder or management fees, general conditions, equipment rental, portable sanitation, waste removal, cleaning, and site security.
Financing and carrying costs	Loan fees, construction interest, insurance, property taxes, utilities, temporary housing, storage, and moving.
Closeout and reserves	Final testing or inspections, punch-list work, remaining owner purchases, contingency, and cash needed after move-in.

Colorado site conditions can make soils, drainage, access, and utility work especially important. Verify actual requirements and estimates for the specific property. This outline is not exhaustive.

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Track changes, protect reserves, and forecast the finish

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A budget is a working management tool. Review it regularly with your builder or project team, especially before approving changes, ordering materials, or requesting a loan draw.

6 Choose a contingency deliberately

Base the reserve on design completeness, site uncertainty, project complexity, and the quality of the bids. Older structures and unknown site conditions may need more flexibility. Keep contingency separate from upgrades, and confirm any lender reserve requirements.

7 Approve change orders before the work proceeds

Get the added or reduced price, contractor fees, and schedule impact in writing. Confirm whether an allowance credit applies. Track each approved change against the budget immediately; several small upgrades can create a large overrun.

8 Track paid, committed, and remaining costs

For each category, record the original budget, approved changes, invoices paid, unpaid contract commitments, and estimated uncontracted work. Forecast the final cost using all three cost buckets. Do not add the full contract price again after counting payments already made.

9 Watch cash flow as well as the total

Deposits, deliveries, and payroll timing may come before a lender draw is released. Keep enough accessible funds for the expected gap. Verify invoices against work and contract terms. Track contingency use and flag overruns while there is still time to adjust choices.

10 Budget for completion and life after move-in

Allow for final cleanup, landscaping, window coverings, appliances, moving, and remaining punch-list work if not already included. Update estimates for ongoing insurance, taxes, utilities, maintenance, and loan payments. Keep an operating cushion after construction ends.

Simple reserve example - illustration, not a cost estimate

Land: $100,000 + design, fees and carrying costs: $50,000 + construction: $400,000 = $550,000 before contingency. A reserve of $40,000 (10% of the construction portion) brings planned funding to $590,000. Select the reserve for your own project; 10% is not a universal rule.

Ask Doug Petersen to help evaluate the property and building considerations. His real estate and homebuilding background can add perspective to your planning. Obtain current local bids and project-specific professional advice.

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