



Why Builder Allowances Don't Make Sense for Custom Homes

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You've chosen to build a new home because you want to live somewhere that has exactly the features you desire. The home builder's responsibility is to ensure that you get as many of your needs, wants and wishes in your new home as possible within your budget. Builders have come up with several ways of pricing a to-be-built home. A strategy that includes allowances seems to cause as many problems as it solves.

WHAT ARE BUILDER ALLOWANCES?

If a home builder uses allowances, it means they are providing a budget for products or services in the project instead of specifying what is included in the price of the new home. While many builders use this method in an attempt to give homeowners a price quickly and easily, the fact is that allowances often result in confusion and budget problems. The process of choosing finishes for your home should be fun and simple, but the use of allowances can actually make it frustrating and disappointing. Here are some of the ways builder allowances cause challenges throughout the home building process.

BUDGET AND COST DISCREPANCIES

One of the biggest problems with builder allowances is that it becomes difficult to know the full price of your new home in the beginning. You hope that you can get the finishes you want within the allowance. But basing financial expectations on hope typically doesn't bode well for the budget.

Another way that allowances can cause budget problems is that a contractor may misrepresent (either purposely or accidentally) what an item or group of items really costs. Unfortunately, this opens the possibility for disappointment when the item either goes over budget, or when you have to settle for a lesser quality item because of budget constraints.

PROCESS CONFUSION

Builders may include as many allowances as possible and set artificially low numbers as allowance figures. This becomes a sales technique that can confuse homeowners into thinking that the final cost of their home will be lower than it actually turns out to be.

One of the fallacies of allowances is that most people aren't shopping for appliances and fixtures on a regular basis—they don't know what these items truly cost. Most people have no idea if a \$20,000 budget for a kitchen is too high, too low or just right. If the allowances are set too low, the homeowner



may feel that they don't have a big enough budget to work with. If the allowances are set too high, they may start thinking that the entire home costs too much.

Another potential for confusion is lack of clarity about what is included in any given allowance. It's not always obvious exactly what the builder has included in the allowance figures beyond the initial cost of the item. Does the allowance figure factor in tax and delivery charges? Does it include installation? If these additional costs aren't factored in, suddenly a cost that looked reasonable can become much higher.

LENGTHY AND FRUSTRATING RESEARCH

Allowances often require the home buyer to do a significant amount of research on their own. In order to find the best deal, this typically ends up with the buyer comparing options from various suppliers and home stores without having a true understanding of how those options will impact their bottom line. Suddenly, the process of choosing home selections becomes more about calculating sale prices and installation costs than about finding the best option for you. The frustration comes in when compare the cost of various options to each other, instead of understanding how a certain option will impact the overall cost of their home.

WHAT IS THE SOLUTION BEYOND BUILDER ALLOWANCES?

There are simple ways to avoid the stress of choosing finishes for your home through allowances. The best way to avoid these challenges during the building process is to make your selections as early as possible. Providing your builder with as much information as you can upfront is helps ensure that you can get the features you want within your budget.

At Sterling Homes, we've developed a process over the last 35+ years that makes it simple—and fun—for homeowners to make informed decisions about their finishes. By eliminating allowances, we have removed the frustration and confusion that often accompanies selections. Instead, our customers go through a process that that is simple, enjoyable, and guided by experts.

We begin by purposefully gathering as much information as we can from our customers in order to design and finish a home that meets their needs and budget. We work from the big picture (What kind of floorplan do you want?) to the smallest details (What kind of toilet paper holders do you want?) Once we have a fully defined set of plans, specifications, and pricing, we sign a contract that outlines *everything* included in the customer's new home.

Our customers then choose their finishes in a process we call "Options and Selections." During Options and Selections, we guide homeowners as they compare various feasible options, always relating them back to the impact on overall cost. For example, maple flooring may be included in the home price, but cherry would be an additional cost or oak could save some money. This allows our customers to compare each option based on what it would cost to install in their own home, as opposed to spending their own valuable time looking for the best sales or calculating price per square foot. We believe you should make choices for your home based on full information (not data) and that we are the experts and should provide you that information.



This process all takes place *before we even break ground on your new home*. We build your home on paper first, tracking any added costs and constantly keeping you informed about where you stand in your budget. You get to make all your decisions with expert guidance and full transparency, ensuring that your home includes your priorities without the confusion that allowances can cause.

Building a home takes time—but it shouldn't be a frustrating experience. Be sure to work with a builder that understands your desires for your home, respects your time, and sticks to your budget. Your builder should be more than a source of plans and project management. They should be your partners and your guides before, during, and after construction.