



BuildChi

Which Build Type For You

Build Type Guide



DISCLAIMER

These are my opinions and only that. I make no guarantee that a particular build type is perfect for you, there is nuance to making this decision and geography plays a significant role in deciding as well. Even if a particular build type is perfect for you, does the area you are interested in even offer that? This handout is for you to set up a baseline understanding of the topic and to make the selection of a build type easier than endlessly researching on your own.

For the majority of those reaching out to me, you will likely be interested primarily in Semi-Custom or Spec builds, however understanding the various difference even within the categories will show you what that selection can entail as well as the limitation brought on by making your choice.



National Vs Local

National Builders:

National builders like Pulte Homes, M/I Homes, Lennar, and DR Horton are all very different from each other in many respects, yet very similar in 3 major ways.

1. Financing

National builders' preferred financing is usually "in-house," meaning their preferred lender is a mortgage company owned by the same parent company or group as the builder itself.

For you, this means that when dealing with a national builder, you have a higher likelihood of receiving financing offers that local builders cannot compare with. This is because when someone like Pulte Homes offers you a promotional \$5k towards closing costs through Pulte Mortgage, they can do so because they have no need to make a significant profit off overseeing your mortgage.

In contrast, when compared to a local builder whose preferred lender is an external company, you will typically find that in the best-case scenario, you are lucky if you can get \$2k towards your closing costs. This also applies to rate buy downs, which have become very popular with builders following the increase in interest rates that started in 2022.



National Vs Local

2. More Robust & Stable Warranties

National builders generally offer more robust warranty setups for their customers. Although this depends on the particular builder, these national builders typically have well-established warranty programs. Most importantly, their large size reduces the risk of them failing and defaulting on their ability to service your warranty. This stability is not always guaranteed with local builders. While the quality of a warranty may vary from builder to builder, the likelihood of a national builder failing is significantly lower compared to local builders, who might be more vulnerable to financial instability.

3. Bigger Contracts

National builders' contracts are typically much larger and more comprehensive, usually ranging from 35 to over 100 pages. These extensive contracts are packed with legalese, ensuring that the builder is well-protected. While this might not be a significant issue if you use a real estate attorney (which is always recommended), it is important to be aware that contracts with national builders tend to be more detailed and complex compared to those of local builders. This means you'll need to be prepared for a more thorough review process to understand all the terms and conditions involved.



National Vs Local

Local Builders:

Similar to national builders, local builders like DJK Custom Homes, Silverthorne Homes, Lexington Homes, and Hartz Homes are quite different yet share three major distinctions over their national counterparts.

1. Typically Better Inclusions

Local builders often include more desirable design elements as standard features. While upgrades and options selections tend to be similar to those offered by national builders, the superior inclusions at the baseline level can be a plus when working with local builders.

2. Easier To Manage Changes

Big businesses move slowly, and national builders are no exception. When you need to make unexpected changes to your build, you're somewhat more likely to find success with local builders. This is because local builders tend to have local leadership, making getting to the top easier to navigate. However, it's important to note that in the Chicagoland area, you have virtually zero chance of making structural changes after your home plans have been submitted to the local government, builders just don't do it.



National Vs Local

3. More Motivated To Do Right

In the new construction space, it's almost guaranteed that you will encounter some issues or disruptions during the building process. How these situations are handled reveals a lot about the builder's culture.

From my experience, local builders are generally more motivated to make concessions and meet you halfway when issues arise. If an option or upgrade was forgotten, or you chose the wrong finish for cabinets, local builders are more inclined to do what is right by you because they have a reputation to protect within the local community.

On the other hand, national builders typically have less personal investment in individual customers. They often view you as just another number, and you're fortunate to get any interest in making things right unless it's strictly due to their failure and legally required in their contracts. While national builders sometimes do the right thing in these scenarios, it's usually because it benefits them as well.

That said, choosing a local builder does not guarantee perfection. I've had clients who have faced problems with both local and national builders. The key is to be aware of these distinctions and make an informed decision based on your priorities and the specific builder's track record.



Tract, Spec & Custom Builders

When looking at builders beyond their size (National vs Local), you will find there are primarily 3 approaches builders can take to building homes, those being Tract, Spec and Custom.

Tract Builders:

Tract Builders are builders who purchase large TRACTs of land, that is then subdivided into various lots where the builder then begins selling off the lots in various ways.

- Some tract builders use that land to build only Spec homes, like with DR Horton, Lennar or any local builder who doesn't offer customizations in a community they are developing.
- Others like Pulte Homes use that land to build primarily Semi-Custom homes with some Spec Homes on the side. On the flip side, with companies like MI Homes, the builder may build a community with half Spec half Semi-Custom homes.
- Lastly, although less frequent, some builders like DJK Custom Homes, Overstreet Builders & Oak Hill Builders, use that land to build fully Custom Homes.

All of these any many others are considered Tract Builders, because they develop entire communities or sections of communities at the same time.



Tract, Spec & Custom Builders

Spec Builders:

Spec Builders focus exclusively on building Spec Homes, which are constructed without a specific buyer in mind. These builders speculate that the homes they build will attract buyers and result in profitable sales. Unlike some tract builders who include spec homes in their portfolio, Spec Builders solely build spec homes, often purchasing individual lots or small groups of lots to develop. A notable aspect of Spec Builders is that their business is often a complementary side venture to a more profitable primary business, such as rehabbing, remodeling, or updating existing homes.

Custom Builders:

Custom Builders specialize in creating fully custom homes or near fully custom. They offer a level of personalization and control over the design and construction process that is unparalleled. These builders can operate as tract builders, purchasing large tracts of land and partitioning them into individual lots for custom home construction, or they can work on individual lots. Custom Builders are very diverse and more expensive than other types of builders. The benefits of working with a custom builder are numerous, making them an excellent choice for those who want complete control over their build choices and have the budget to accommodate the additional costs.



Spec, Semi-Custom & Custom Homes

Now that we know how to define builders better, we can look at what separates the homes themselves which we have briefly touched on already. There are 3 types of Homes when looking at new construction, Spec Homes, Semi-Custom Homes and Custom Homes.

Spec Homes:

Spec Homes are homes that have been built without a buyer already lined up to purchase the home. You can find Spec Homes with just about any type of builder, as most now offer some form of Spec options throughout any given year. Some key reasons to consider Spec:

- You do not have to wait to get your home as opposed to the long wait times associated with Semi-Custom and Custom homes.
- You can negotiate easier with Spec Homes, since the builder is already incurring added cost the moment a spec home completes you have an advantage over homes yet to be built.
- Lastly, the most important reason to consider Spec is the fact that most larger builders at least, tie their biggest promotions and interest rate buy downs to Spec Homes, meaning you can save tons with Spec.



Spec, Semi-Custom & Custom Homes

Semi-Custom Homes:

Semi-Custom Homes is a more recent development to cater to the growing interest in custom homes and customizability in general, but all with affordability in mind. Of course most of us aren't blessed enough to be able to afford the custom route and Semi-Custom gives us at least some say in the designing of our new construction homes.

Due to this, it is by far the most popular with buyers specifically interested in new construction, at least initially. However it rarely compares financially to Spec options which is why Spec homes from companies like DR Horton and Lennar dominate the market and why many who start their new construction journey exploring Semi-Custom options, ultimately close with a Spec home instead.

That said, even though you are limited to only what is offered within the floor plans options, Semi-Custom homes allow you to make pretty significant choices in the layout and design of your home, usually without breaching the 1 million dollar minimum price tag now expected with most custom homes.

The biggest concern with Semi-Custom is usually the timing though, where you could easily expect to wait 7-9 months for your home to complete which is better than Custom but also far longer than a Spec Home.



Spec, Semi-Custom & Custom Homes

Custom Homes:

Although ideal for most in their mind, Custom homes although great aren't as great to deal with as they may seem on the surface. I don't recommend custom homes to everyone, even if it's affordable at a price tag usually exceeding 1-1.2 million dollar.

This is because many have no idea what custom can demand from you beyond just the financial aspect. Of course you have to consider the price, but with Custom you also have to realize, that builder likely expects you to make the decision on so many details of your home, that the task can be overwhelming for some, especially if you are naturally indecisive.

Additionally, finances in mind, a Custom home comes naturally with more upkeep related expenses, trickier mortgage options and a higher likelihood of closing with a loss of equity due to your decisions. Unlike with Semi-Custom or Spec homes, the builder isn't broadly making decisions for you that cater to the overall market. This can hurt your resale price later down the road if your choices don't align with the potential buyers you have at that time.

So, that said although Custom sounds great, if it's not your forever home or if you don't want the headache of a million different decisions, stick with Semi-Custom or Spec homes.