

How to set a new project budget?

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All major projects begin with setting up a budget. This should not necessarily be as much as you could afford. Options for self-build financing can be briefly summarized as cash, equity in existing property and the amount you are able to borrow, which depends usually on your income.

Formerly, lenders required that self-builders fund the cost of the land themselves while they would lend the money for the construction. Nowadays, lenders tend to lend a proportion both of the cost of the land and building costs, but they will advance the money in a series of payments linked to the completion of various stages of construction.

After you set a notional budget, you must decide how much space you want in order to come up with a rough figure for building costs. In this step you can compare different options such as doing a part of the work on your own or using sole contractors or subcontractors for all or part of the job. Overall costs will include:

Price of the land

Building costs

Professional fees

Insurance and warranty premium

Costs of borrowing

Cost of the accommodation while the house is being built. Always calculate that the land cost should be about one-third of the eventual value of the new house, the building costs another third and the remaining third representing equity or profit. But land and building values vary widely between regions it is highly recommended to research the market thoroughly both to establish cost guidelines and to discover what your proposed home might be worth when it is completed.

If the costs exceed your budget, you will have to look at ways to reduce the numbers, either by scaling down the size of the project, looking into cheaper construction methods or by reconsidering location. Don't be tempted, however, to cut costs by deciding to take more of the work by yourself than you had originally intended as this may prove a false economy if things go wrong.