

The Owner Builders

Guide



Learn how to successfully build your own home as an Owner Builder

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Disclaimer

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1 Introduction

Congratulations on purchasing this guide. You have successfully taken the first step of your journey as an owner builder. Over 40,000 people owner build in Australia each year. This is a testament to the benefits that can be enjoyed by owner building your own home.

For starters, you can save a tremendous amount of the cost of your new home simply by managing the project. Not to mention the satisfaction of successfully building your own home the way you like it. You can reap these benefits by bringing together the expertise of different tradesmen, supplying materials and coordinating the labour.

However, like anything in life it will come at a price. But let me tell you, it's a small price to pay for the benefits you'll reap. You'll have to invest a large amount of your time into the project. There are also some qualities that you'll need to possess that are crucial in the completion of a successful project. You must be honest with yourself as these may not be your cup of tea. If they're not then you may want to reconsider owner building your own home.

Do you have the ability to supervise this project? Do you have the managerial and interpersonal skills to deal with people as well as issues, hurdles and potential disputes that may arise? Can you coordinate work by dealing with the subcontractors, the supplies they need as well as the dependencies between different tradesmen and the tasks they need to perform? Do you have the energy and the inclination to deal with all of this while still performing your normal work-life routine?

If you answered yes to the above questions then continue reading this document. If one or more of the answers are no then maybe you should reconsider. Be honest with yourself, this can be a very demanding exercise and you need to be 100% certain that this will be your cup of tea.

By the way, if you're happy with all of the above questions but you work full time, you can still successfully owner build your own home. You can do most of the planning and execution during evenings and weekends. You may choose to spend some of your lunch time at work on the phone if required. You can also inspect the works after hours. You don't have to be on site all the time. In fact, you don't have to spend much time on site at all. As long as you coordinate people to perform work in the correct order and supply them with what they require to complete their work.

Also, you don't have to already know everything about owner building. The information will come with the correct attitude and a willingness to learn. The better informed you are the greater the chance of achieving a successful result.

If you're having doubts at this stage but you still have an interest in building your own home I suggest you read this guide. If it still does not eliminate the doubts then I suggest you engage the services of a reputable builder or buy an existing home. It is a very demanding undertaking and you need to have the time, energy, positive attitude and willingness to learn.

This guide contains a lot of information and tips for the construction of a new dwelling. Although it provides information in a logical order, it is not a step by step manual. Each house will be built in a different way so there is no such manual. However, this guide will assist you through the building process; making you aware of the things you need to do and the questions you need to ask to successfully complete your dream home.

This guide is mainly aimed at the supervision of the construction of a house which is required for every project. If you want to get more involved in the detail and actually perform the work yourself, like constructing the frame or laying the tiles yourself then you will not obtain this information in this guide. However this guide will give you an insight into how you can engage tradesmen to perform this work for you. You can easily supplement the information in this guide with more detailed information about how to perform particular stages by yourself without engaging tradesmen (such as DIY guides and books).

Although this guide is written from the perspective of owner building in Victoria, most of the information will greatly assist owner builders in all other states. The main differences are from a legislative perspective. To obtain information specific to your state please refer to the following governing bodies:

Victoria

<http://www.buildingcommission.com.au>

New South Wales

<http://www.fairtrading.nsw.gov.au>

Western Australia

<http://www.builders.wa.gov.au>

Queensland

<http://www.bsa.qld.gov.au>

Tasmania

<http://www.wst.tas.gov.au>

South Australia

<http://www.ocba.sa.gov.au>

ACT

<http://www.actpla.act.gov.au>

Northern Territory

<http://www.nt.gov.au>

It is recommended that you read this guide at least twice, firstly to give you the overall picture and make you aware of all of the stages and how they fit together, secondly to serve as a reference while undertaking individual stages of the project.

Ensure you keep records of all receipts, invoices and communications between yourself, suppliers and tradesmen. You should also keep a diary for two main purposes. To record details of conversations with tradesmen and suppliers and contact details of these people. You may also want to keep some sort of a filing structure to store brochures, product information and any other documentation.

Section 2.7 *Costing your project* of this guide contains a costing schedule. Correctly filling out this schedule in conjunction with reading the rest of this guide will assist you in the costing of your project.

Finally, when building a house you must do your best to meet obligations to other parties including:

1. Completion of all relevant registrations, compliance and inspections in accordance with the relevant authorities e.g. building permit, owner building permit, insurance, sewerage authorities etc.
2. Coordinating the labour and materials at the right times to ensure minimal delay to all involved and keeping the project running smoothly and managing your cash flow in order to pay your contractors and suppliers as and when agreed

2 The initial stages

There are a number of areas that require attention when initiating your project such as:

1. How you will finance the project?
2. Purchasing the land and
3. Designing the home that you're about to build

We will cover off these topics in this section.

2.1 Finance

These days it is the norm to finance your project is through a home loan product, which is normally provided by banks, lending institutions or arranged through mortgage brokers.

2.1.1 How do loans work?

Generally speaking, banks charge you interest on the money which they loan to you along with a number of other fees such as setup fees, account keeping fees and entry and exit fees. This interest needs to be paid to the bank regularly along with the amount lent to you (which is referred to as the principal). This combination of interest and principal must be paid regularly.

As time progresses and you make more and more principal repayments, this reduces the size of the loan and your interest repayments become smaller as a result. There are loan calculators available on the internet which will tell you the total amount of money you will give to the bank given a number of variables such as the interest rate, the repayment frequency and amount and the term of the loan.

The higher the frequency of the repayment and the greater the repayment amount, the quicker you will repay the loan and the less money you will pay to the bank in interest.

When taking out a home loan the lender will require security for their loan and this is in the form of the interest of the lender being noted on the property title as per the mortgage agreement.

Normally, lenders will only loan up until a certain percentage of the valuation of a property so you will need to come up with a deposit for the remainder. For banks this is generally around 80% but you should confirm this with your lender. You can borrow more if you take out mortgage insurance.

Mortgage insurance is a type of insurance that you the mortgagee take out on the banks behalf to cover the bank in the event that you're not able to make repayments.

The valuation of the property will also be undertaken by the bank and will be lower than the purchase price. This is to cover them in the event that you cannot meet repayments and they're not able to recoup the entire amount of the loan.

You need to also come up with the finance to pay for other up front costs such as:

1. Government charges
2. Stamp duty
3. Conveyancing fees
4. Titles office fees
5. Lenders loan establishment costs, valuation fees and legal fees

2.1.2 Variable VS Fixed interest

You also need to consider whether you want to get a fixed interest loan, a variable interest loan or a combination of both.

Variable interest is where the interest rate fluctuates with the Australian economy in general. This means that the Reserve Bank of Australia can reduce or increase the interest rate at any of its monthly meetings depending on the state of the economy and the rate of the change in the inflation rate. If you are considering

choosing this option you need to have thought through the scenario where interest rates may increase by a few percentage points and whether or not you can still afford to make repayments.

Fixed interest is where the interest rate remains the same for the duration of the period at which the interest is fixed. The main advantage with this type of loan is that you know what you're up for in terms of the amount of interest you're paying for the duration of the loan.

This can be thought of as an insurance policy against interest rates going up and therefore in general will be more expensive than variable rates. The main disadvantage though is that variable rates can from time to time go the other way and decrease, leaving you paying more than what you should be if you're paying fixed interest.

When taking out a fixed interest loan, be particularly inquisitive about any penalties which may be incurred as a result of early payout of the loan as well as refinancing costs.

If there is a considerable reduction in interest rates and you wish to alter your loan to take advantage of this, there may be considerable financial penalties incurred as a result. Depending on the size of your loan, this can run into the tens of thousands of dollars and is generally not worth doing from the borrower's perspective.

When shopping for home loans you need to be careful about how you compare loans from different institutions as there are many different charges to consider like: honeymoon period rates, setup fees, account keeping fees, entry and exit fees, the interest rate itself and more.

2.1.3 Beware of the "honeymoon period"

There are a number of different products out there designed by lenders to entice unsuspecting borrowers. One thing to be mindful of is the "honeymoon period". This is where a lower interest rate is applied in the early stages of the loan (e.g. for the first year or 6 months), after which it is increased to make up for the initial discount. With these types of loans you need to be aware of what the latter rate is and factor it into your calculations. Can you afford to pay the real interest rate?

2.1.4 First home buyer grants

First home buyer grants or subsidies are available to first home buyers from time to time. You can enquire as to whether or not these are available and their conditions by speaking with the State Revenue Office in your state.

2.1.5 How to get approved for your owner builder loan

You may find that quite a few banks do not lend to owner builders. This is for a variety of reasons from the additional processes they need to follow through to a higher risk of the project going over budget or not being completed.

Firstly, before you apply for your loan make sure that your lender actually does accept loans from owner builders. There isn't much point in applying, waiting and then getting declined anyway. Although banks are willing to bend some of their policies, this is one that is hard and fast. They either do it or they don't.

Secondly, submit your application in full with all of the documents required by the bank. If you submit an incomplete application then you'll just delay your loan. If you don't yet have a final costing or plans then submit a pre-approval for now. You can then convert this into a full approval when you have everything ready. If you make changes to your budget or plans then your application will almost certainly need to start from the beginning and a new bank valuation may be required.

In particular the most important documents are the cost estimate / budget and the plans. The lender may require you to fill in the figures from your costing onto their own cost estimate template or you may be allowed to provide your own. The biggest problem encountered by owner builders is that their costing is incorrect or incomplete, causing them to run out of funds during the project. Most banks will not increase

your loan during construction, so if this happens you could find yourself unable to finish your project! For this reason it is critical that you include a substantial contingency in your cost estimate and that you accurately estimate the construction cost before you begin.

The lending guidelines for owner builders change regularly and are quite complex. For this reason we recommend that you look at the website for the Home Loan Experts who are mortgage brokers that specialise in owner builder mortgages. You can view their page on owner builders here <http://www.homeloanexperts.com.au/property-types/owner-builder>

2.2 Purchasing the land

2.2.1 Choosing the location

There are a number of factors that may influence the location you choose to build your home on.

These include:

1. Preference for a particular suburb, town or region
2. The cost or availability of land
3. Preference for an established suburb or a new estate
4. Access to infrastructure or services such as transport, schools and shopping centres
5. Lifestyle factors such as vicinity to sports, leisure centres, Cafes and restaurant
6. The travel time to work

Although you may prefer to live in close proximity to shops, schools and transport you may not want to live too close. Consider living within walking distance so as to limit the amount of noise that you can hear when in the comfort of your own home. Being too close can also affect the resale value of the property, especially if you live on a main road or near a noisy freeway.

When you have decided on the area you wish to purchase in you can quickly gauge what land is worth by talking to local real estate agents or obtaining a report of recent property sales (e.g. services such as www.realestate.com.au, www.rpdata.com.au or www.domain.com.au).

It is also advisable to check with the local council as to whether the area could be affected by proposed freeways, rezoning or whether it is susceptible to flooding. You should also enquire as to whether there are any special overlays that have been placed on your allotment dictating whether or not there are any special building restrictions, heritage protection, etc in force.

2.2.2 Easements and covenants

One topic that you would not want to forget about is the one of easements and building covenants.

An easement is a piece of the allotment that you cannot build over as it can prevent future access to infrastructure and services. These are services that are located under the easement such as drainage, sewerage and power.

Generally speaking, this is not normally an issue as easements tend to be narrow and run along the boundaries. There are instances where they are more prevalent and could potentially interfere with the planned location of your house.

A covenant is a condition that dictates restrictions regarding prospective construction of housing on that land. Examples are:

1. Building envelope – this is defined as a boundary on your allotment within which your home must be constructed
2. The minimum size of the house to be constructed on the allotment
3. What the external walls of the house should be built from (e.g. they must be built substantially from brick)

You need to be aware of what the covenants are before you purchase the land as it is mandatory to comply with them. That means that if you're not happy with one or more of the restrictions you shouldn't be purchasing the allotment.

Easements and covenants will be detailed in the section 32 of the contract of sale of the land you're looking to purchase.

2.2.3 Other considerations

You should also check that the boundaries on the actual block correspond with a copy of the title. There should be survey pegs in the ground indicating the borders of the allotment. If you cannot find these then you should arrange for the vendor to have the site professionally surveyed prior to purchasing the allotment as well as verifying them with a copy of the title.

When purchasing land it is important to establish which services are available to your allotment. For example you will need electricity, gas, water, sewerage and telephone. You may also like to enquire about the availability of internet and cable TV services. If any of these services are not available, you should find out from the relevant authority when you can have them available to you and what the cost will be and who will fit the bill.

If you have a sloping allotment then you may need to budget for additional costs in terms of excavation. Depending on the slope you may also have to make allowances for extra delivery costs or for tradesmen working on a site that is difficult to build on.

Be careful when assessing the extent of the slope on an allotment. You may be surprised at the amount of fall on a block that appears to be level at first glance. Implications of a sloping block include greater cost for design, excavation, retaining walls, foundations etc.

If your allotment has any existing structures such as a house, garage, car port, shed, concreting, bungalow, pool etc that you would like to demolish or remove then you must consider the cost of this.

If you're engaging a contractor to demolish the existing house you should check to see whether the price they quote you includes removal of any foundations. Generally their quotes will only be removal to the ground level. If a previous property has already been demolished the foundation may still be there and you need to budget for it. Septic tanks and other underground structures must also be considered.

Removal of any unwanted trees must also be considered. Ensure that you seek advice from the local council about their tree removal policy.

2.3 Conveyancing

Conveyancing is the transfer of legal title of property from one person to another, or the granting of an encumbrance such as a mortgage.

Solicitors or conveyancing firms are normally engaged to perform this task however, conveyancing kits are readily available and they explain the steps in an easy to follow manner. So you can do-it-yourself with one of these inexpensive kits.

Although it sounds very simple, there are some traps that you could fall into if you don't properly follow the instructions. If you follow these steps and do your due diligence you can save a bit of money in this area.

You must ensure that the land you're buying is free of any encumbrance and is not affected by any of the vendor's actions after the settlement date. You also need to be aware of any caveats, covenants or easements (see section 2.2).

You'll also find out if there are any unpaid rates which should be paid by the vendor prior to the transfer or deducted from the purchase price. You will have to pay your share of the current year's rates for the period in which the property is yours.

Your lender will also want the title fully transferred into your name and their interests noted and lodged with the titles office before they will loan you the money for the property.

2.4 Soil testing

The purpose of soil testing is to assess site conditions to nominate the best footing or foundation system for your house. Ensure that your soil tester is suitably qualified and registered to test the soil.

Incorrect information or recommendations in the Soil report can result in cost overruns when constructing the foundations of your house or worse still faulty foundations. The consequences of this could be devastating.

A soil engineer will drill your site for soil samples which show the composition of the land and present you with a Soil report that contains information such as:

1. The types of soil and their strengths on your site
2. Site classification
3. The most suitable footing or foundation system for your site
4. The suggested depth for your foundation
5. Any existing or potential construction problems caused by trees or drainage

2.5 Designing your home

There are a number of details to think about when designing your home. You will acquire inspiration and ideas by viewing existing homes that are for sale as well as new display homes and magazines.

Here are some points to get your creative juices flowing:

1. The floor plan and layout of the house including how many rooms, bathrooms, living areas, entertaining areas and their sizes
2. The appearance of your house or the type of façade that appeals to you
3. The approximate size of your house and how many levels it will comprise
4. The sort of materials you will use for the external cladding such as brick, weatherboard, rendered walls and roofing including roof tiles or metal roof (e.g. colourbond)
5. At this point you need to have a budget in mind as this will play a part in determining the design of your home
6. Special features that you want in your home such as outdoor living areas, fireplaces, an attic, underground garages etc.

You should consult an architect or a qualified, registered draftsman or service to draw detailed plans for you. You will need to convey the basic information described above to the drafting service so that they draw up a house to suit your requirements.

The following are standard drawings (including all dimensions) that you should receive from a drafting service or architect as part of their deliverables to you:

1. A floor plan of the house
2. Front, side and rear elevation drawings of the building
3. A cross section of the building that shows the structure and dimensions of the framing and roofing structure
4. A site layout showing the position of your house on the allotment and drainage locations
5. Structural Engineer's drawings and computations for the structural elements and foundation of the building. These should be done by a qualified structural engineer which your drafting service will generally outsource to

When selecting an architect or draftsman, you need to ensure that they are registered, suitably qualified and that they have professional indemnity insurance. You should also ensure that they

openly provide you with design feedback, suggestions and recommendations. They should have a thorough understanding of all building regulations and requirements as well as practical knowledge of how to transfer ideas into a practical design.

Be wary of drafts people who simply agree with you as they may simply be trying to win your job and may not have much expertise to offer. If they are challenging your decisions and providing valuable advice then things are looking good.

When designing your home ensure that you consider the layout of the kitchen, laundry and bathrooms. This needs to be planned so that the electrician and plumber know where to position water, electrical and gas points during the rough in stages (and concrete slab stage if you're electing to go with this option).

Note – you should never borrow a plan from a builder or draftsman without their permission. These drawings are the intellectual property of the person who created them and you could be subject to legal action as a result.

2.6 Energy efficient design & the 6 star energy rating

From 1 May 2011, all owner building projects will need to comply with a 6 Star Standard due to it coming into effect in the Building Code of Australia. This sees Victoria align with national energy efficiency measures.

Well designed, 6 Star homes don't look any different to your average home but are projected to use 24 per cent less energy for heating and cooling compared to 5 Star homes. This will see Victorians saving a further \$100 off their energy bills each year.

If we step back in time, typical 2 star dwellings built prior to 2005 used twice the amount of energy for heating and cooling compared with typical 5 star dwelling that was built prior to May 2011.

A 6 Star energy efficiency rating applies to your home's building envelope - its roof, walls, floor and windows.

Some simple building work, not requiring a building permit, will not be affected by the new regulations. However all new homes and building projects, involving home extensions and major renovations, will need to comply.

The 6 Star energy rating is performance-based rather than prescriptive. This means designers and builders can use their creativity on how they meet homeowners' requirements of being cost-effective, functional and aesthetic in designing and constructing 6 Star homes.

The 6 Star standards currently require you to meet the following criteria:

1. 6 Star energy efficiency rating for the building envelope (i.e it's roof, floor, walls and windows);
2. The 6 Star requirements also include efficiency standards for fixed lighting but not plug in appliances provided by homeowners.; plus
3. Either a rainwater tank for toilet flushing, or a solar hot water system.

These may be achieved through a wide range of options, such as:

1. Maximizing the level of thermal insulation in the ceiling, walls and floor areas to conserve energy used for heating and cooling.
2. The best possible orientation of your house to make use of natural sunlight as well as and exterior shading such as trees and the overhang of eaves
3. Better seals and draught-proofing of external doors and windows
4. The use of high performance window glazing.