



**Herzer  
Financial**  
BY SOCOTRACAPITAL

FAST-TRACK SUCCESS

# How to Finance and Build Spec Homes for Profit





# Introduction

For many builders and investors in residential real estate, speculative (spec) home construction has become more and more appealing due to the ability to control the process, from timing to cost to marketing.

Many sellers remain reluctant to let go of homes secured at low rates, so the inventory of available homes for sale has declined to a [record low](#), leaving buyers with few choices. That has not only increased buyer interest in new homes that are move-in ready, but it has also helped shift the risk profile of speculative residential construction because there are fewer resale homes competing for buyers.

Historically, building without a buyer has been a risk that banks would not finance. Taking into consideration the seller's market with limited inventory and a pool of buyers looking to purchase, there is an opportunity to profit from the current environment with a good project plan and strategy to execute.

This presents a unique opportunity while the resale market waits for the Federal Reserve to reduce mortgage rates. Spec builders that carefully plan and finance projects with the market in mind stand to see positive returns.



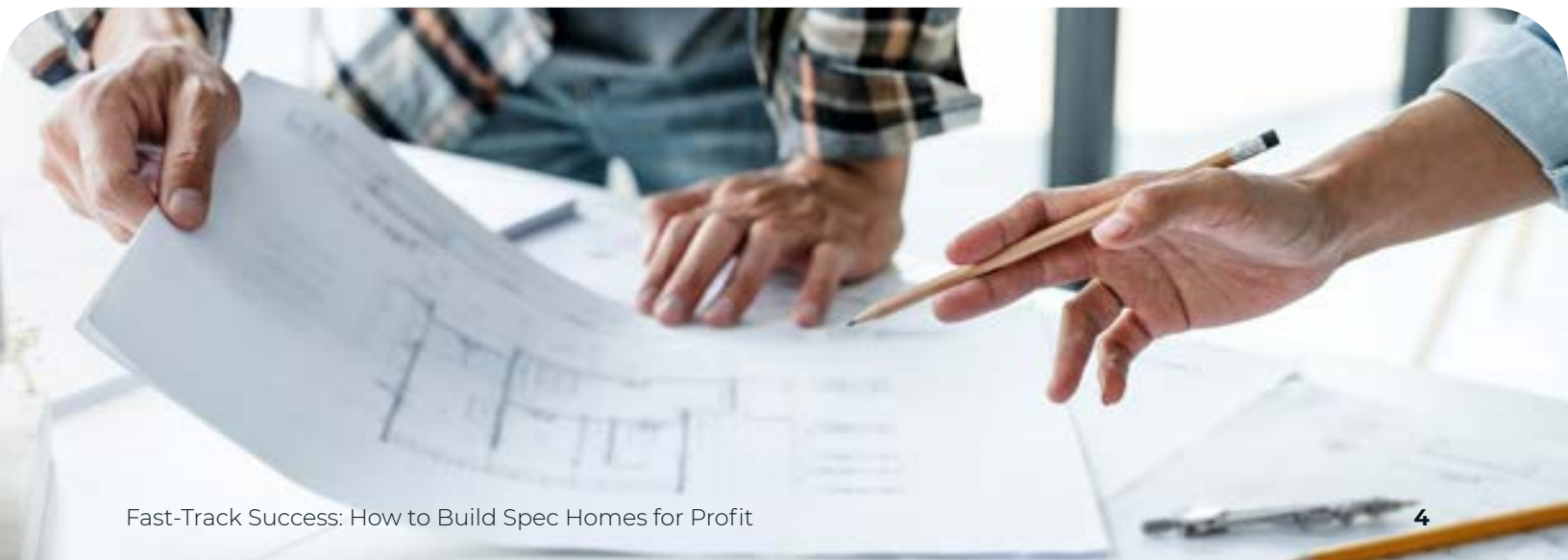


# New Construction

Spec homes can be sold more quickly and at better prices than renovated homes because there's no need for the buyer to negotiate repairs or delay move-in. They can also be built more quickly without deliberation over custom finishes and fixtures. For production builders that know their local market, spec construction can keep crews busy as they rotate from jobsites.

Unlike similar construction investments, such as flipping, building spec homes rarely involves costly surprises, such as mold damage. New construction also enjoys a premium that maintains better value for resale in a down market. As with most real estate, you'll realize the profits of building spec homes once you sell.

For those willing to manage a project on their own, it can be extremely rewarding. Finding the right mix of equity partners and leverage are critical components to figure out early on.





## The Profitability Equation

For specialty contractors willing to take ownership and be their own boss, the margins for profit can be significant when you build and sell spec homes independently.

### As your own boss, you have:

- Expertise—you know what to build, where to build, and how to do it well
- Direct control over construction quality and the product you sell
- Cost control from start to finish and the position to negotiate directly with suppliers
- Flexibility in design choices and streamlined decision-making for replicable, scalable projects with premium pricing

The ability to better utilize and schedule your team across multiple projects is ideal, but it requires meticulous planning to manage costs and timelines to keep profits from eroding. One of the biggest opportunities to protect your profits is in the lot acquisition process.





# Selecting and Securing the Right Sites

Avoid purchasing lots indiscriminately. The ability to obtain construction financing relies on understanding potential value. To ensure you can set yourself up for a successful project, secure capital to build, and manage costs effectively, you need to research what you're buying first.

The property cost should make sense and position you for a strong sale. Market specialization will go a long way to helping you navigate factors such as median price, absorption rate, and permitting considerations, such as municipal boundaries, that can heavily inform your construction costs and dictate the code you build to.

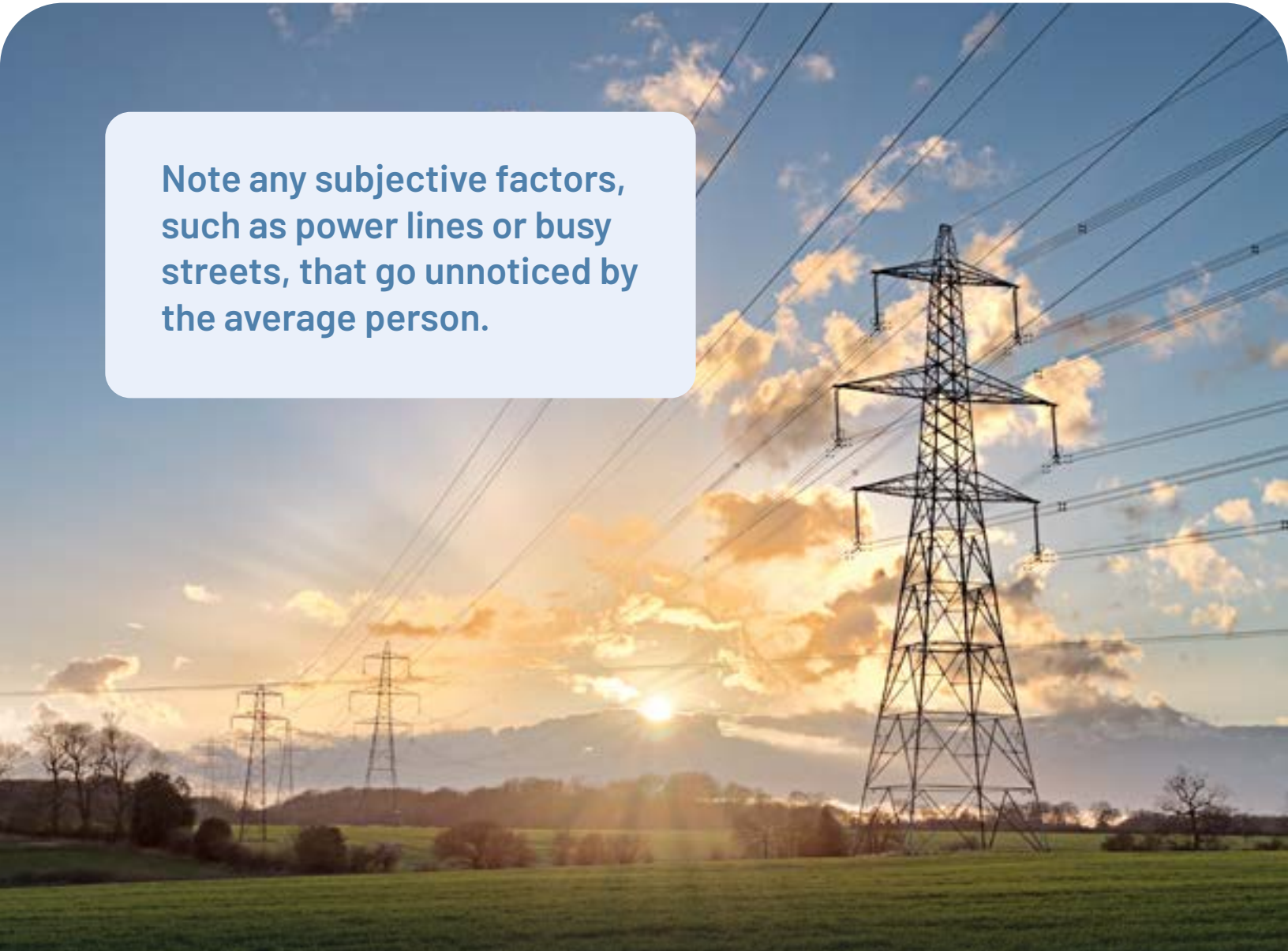
Research will also give you insight into preferred features buyers are looking for locally. When scouting properties, [prioritize location](#). A good lot at a good price is even better in the right area.

## Factors That Elevate Lot Value

-  Prime location
-  Alluring views and marketable leverage
-  Proximity to amenities and community
-  Excellent school districts

While building spec homes can have a relatively quick turnaround, the market can shift before you complete your project. Assess sites with future development potential and neighborhood dynamics in mind. Note any subjective factors, such as power lines or busy streets, that go unnoticed by the average person.

They may not seem significant, but you don't want to give buyers a reason to say no. The same can be said for your lender. If you've done your research and you know you've got a good deal you can market, lenders will have confidence in financing it.



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# The Essentials of Getting Started

After you select a site, the best thing you can do is start planning your project. Don't wait for closing. Set processes in motion so you can maintain momentum and keep your time and costs lean. Eventually, you won't need to start from scratch each time, and your plan can become iterative.

## Build Your Network

For investors, start by getting to know a good builder. They can help you coordinate subcontractors and suppliers and keep your budget and timeline realistic. Finding a reliable partner will help this project—and the rest to follow—be a success.

For builders, you have the expertise. You know the cost of spec building materials, how quickly suppliers can deliver purchase orders, how to manage subcontractors efficiently, and how long permits can take to review. Planning while you wait for approvals will prevent any lag in execution.

Then, keep making connections: an architect local to the area who can draft your building plans, designers who can facilitate floor plans and layouts to maximize space, a local real estate agent to help sell the home, landscapers to give it curb appeal, and so on.





## Don't Delay

Before a spec home is ready to break ground, start filing for permits. Each municipality will have different schedules for permitting and can take months to approve. Lenders require permits to be in place before closing construction loans, so be sure you're aware of their requirements before your hands are tied. Similarly, coordinating utility hookups with as much lead time as possible will help prevent construction delays.

## Carry Cash

Construction loans are often drawn incrementally, and that means you may not always have the working capital you need the moment you need it to keep building on schedule. There will also be costs associated with the property to carry until the house sells, such as taxes, utilities, insurance, and interest payments on financing. It's essential not to underestimate material and labor costs. Avoid overbuilding for the market to prevent your project from stalling.

# Strategies to Safeguard Your Investment

Building spec homes can lead to strong profit margins, but it also requires a lot of money to carry through to sale. A strong foundation with the right financing will help manage your cash flow and obligations to your lender if the market shifts.

Be detailed with your budget to avoid underestimating costs or spending money where you don't need to. Cost overruns are common, and without careful construction planning, you may sacrifice more than just your profit margin.

Lenders experienced in construction will be familiar with the risks of building spec homes and help you navigate financing to best suit the goals of your project.

For residential real estate and construction, it's important to have a lender that understands the construction process. Private lenders, such as [Herzer](#), have the experience and expertise for projects a traditional bank would be unwilling or slow to fund, such as building spec homes.



As you evaluate your financing options, don't be afraid to ask questions. The lender's objective is to get their money back, and that can't happen if you misunderstand the loan terms.

To reduce risk, some lenders require free and clear lots before they will close on construction funding. You can also expect to provide a down payment for the loan to demonstrate a capital investment in the project.

When you're ready to [apply for financing](#), include thoroughly documented construction plans to convey the potential value of your build, an appraisal, and a realistic pro forma with the worst-case scenario in mind. This means conservatively planning for market downturns to ensure you at least break even.

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# Crafting Irresistible Homes for Quick Sales

For a newly built home to be sold as is, it needs to appeal to the buyer. As a spec home builder, you can't try to please everyone, so your best approach is to be intentional with where you make an impact.

## Prioritize:

- **Features that meet an emerging need:** Electric vehicle chargers and home office spaces for working from home are becoming increasingly popular.
- **Areas of daily use:** Buyers pay close attention to the kitchen, primary bathroom and closet, and entryway.
- **Features that add value without inflating cost:** Special-order luxury appliances aren't going to enhance value for every buyer and could delay your timeline. In contrast, if engineered decking is comparably priced to treated lumber, buyers are likely to appreciate the low-maintenance upgrade over traditional aesthetics.

Real estate agents are excellent resources for insights as you get started. They can advise you on which features buyers are looking for in your local market and consult on pricing strategies for sale.

Neighborhood analysis and cost considerations will play a key role in determining how to price your spec build for profit. Research comparable homes, their features and finishes, sale prices, and how long they were listed for a realistic picture of your potential margins.





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## Partnering with Herzer

Many banks find building spec homes unnecessarily risky. Private lenders tend to have more flexibility and can use creative structures to help achieve the financing needed to get the project built. Herzer has been a reliable partner of first-time and seasoned builders for more than 70 years. As a private real estate lender, we offer expertise and solutions that are tailored to your project.



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**Finance your next spec  
construction project with Herzer.**

**Contact us**

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