

## Considerations for Undertaking Residential Design-Build

Adapted from "Residential Design-Build," by John Brown, MRAIC, in *The Architect's Guide to Design-Build Services* March 2006

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### SUMMARY

Incorporating residential design-build into a firm's existing offerings requires an understanding of its competition. John Brown, MRAIC, suggests the market itself is a firm's primary competitor and offers questions for firms to consider when defining its target market.

### LOCATION, LOCATION, LOCATION

For architects considering the transition from a more traditional practice to leading a design-build project, one of the first new ideas to grasp is, "Who is my competition?"

In the housing market, except for high-end house designs, it is rarely going to be another architecture firm. More likely, it will be the market itself: Will people want to buy the homes you design and build? The maxim, of course, is location, location, location. And an important element of selecting a location is economics.

Simply put, a target market is a group of individuals with a set of common characteristics that differentiate them. For better or worse, house buyers in self-selected markets tend to be highly segmented. And, unlike most markets, the willingness to pay is secondary to the ability to pay. That is why selection of location is heavily dependent on analyzing target markets, which, in turn, are so often defined by economics. Age, for instance, is one primary element tied closely to ability to pay.

Mortgage lenders qualify individuals based on gross income and fixed expenses. The general rule is that no more than 30 percent of gross monthly income can go to housing expenses (principal, interest, tax, and insurance). Because the interest rates are very low right now and, for the short-term anyway, likely to go a bit lower, people are financing and refinancing mortgages that allow them to own more new or refurbished home than the market has seen in 40 years.

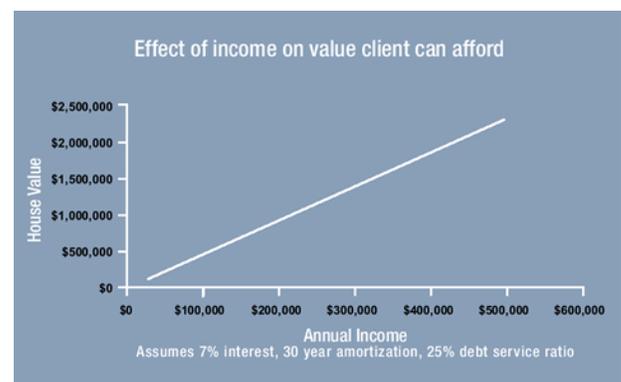
Location is also tied to the economic equation because location has its own economic impact.

Unlike most other consumer goods, a house in Brooklyn is going to sell for considerably more than the equivalent home in Bismarck. All told, this means that the design-build entity will need to select a target market based on a detailed understanding of the specific residential marketplace and the feasibility of meeting the expectations of the different market segments, be it affordable, first-time market-rate, move-up, or high-end housing.

### CRITERIA FOR DEFINING A TARGET MARKET

The success of a residential design-build firm is based on its ability to identify the specific client group that will need, will want, and can afford its products and services. Target-market decisions should be informed by and made in conjunction with the process of defining the products and services the firm will bring to market. These target-market decisions are also critical to the firm's financial-growth plan.

In developing a target market, the residential design-build firm can consider the following questions about possible business locations.

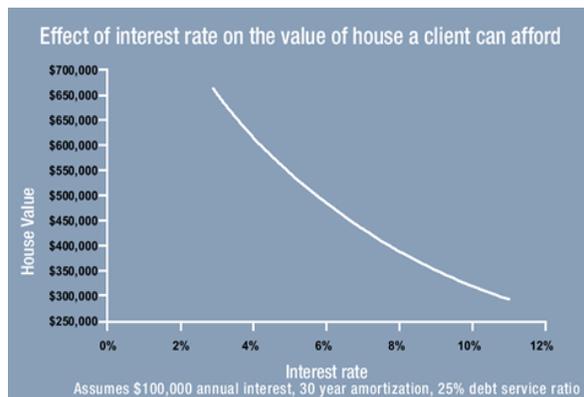


**DEMOGRAPHIC TRENDS**

- What is the general distribution of the population in the target area in terms of age, income, education, and vocation?
- What is the average age of the population, and is it increasing or decreasing?
- What percentage of the population can afford to buy the products or services you are considering, and what is the age of this group?
- Will this percentage increase or decrease over the next five years and by how much?
- What other social factors (education, vocation, family size, activities, interests) correlate with this group?

**ECONOMIC TRENDS**

- What is the current local economic climate, and how is it affected by larger economic cycles?
- What is the economic forecast for the next five years?
- How will changes in the local economy affect the housing market?
- How sensitive to changes in the economic climate are the products and services you are considering?



**MARKET ANALYSIS**

- What is the general distribution of housing costs in the area?
- How do these costs correlate with the demographic analysis?
- In what location, and at what price level, is most of the current residential construction occurring?
- What are current residential construction costs?

- What is the activity level of the resale and construction markets at the level of the products and services you are considering?

**ABILITIES AND INTERESTS**

- What is the general demographic profile of the existing client base?
- What are the characteristics of the clients for whom the firm has done the type of work it is best known for, most comfortable with, and most interested in continuing?

**RESOURCES**

**More Best Practices**

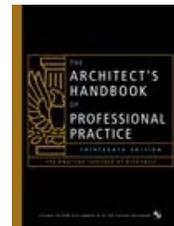
The following AIA Best Practices provide additional information related to this topic:

- 12.03.01 Design-Build Teaming Checklist
- 12.03.02 How Roles Change in Design-Build
- 12.03.03 Roles for the Architect in Design-Build

**For More Information on This Topic**

See also “Design-Build,” by Ron Gupta, AIA, and Paul Doherty, AIA, *The Architect’s Handbook of Professional Practice*, 13th edition, Chapter 18, page 612.

See also the 14th edition of the *Handbook*, which can be ordered from the AIA Bookstore by calling 800-242-3837 (option 4) or by email at [bookstore@aia.org](mailto:bookstore@aia.org).



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**Key Terms**

- Leadership
- Disciplines
- Construction disciplines
- Design-build