

Do's and Don'ts When Purchasing New Construction Homes

Do's

- **Have your own agent**

Believing they might get a better deal or out of ignorance many buyers use the developers sales agent to represent them. New Construction buyers should research what a dual agent can and can't do under their state real estate license laws. Most states require written acceptance of dual-agency by both parties. All homebuyers should be represented by an agent who has a fiduciary responsibility to them. Buyers shouldn't forget that most developers require that your agent must accompany you the first time you visit a sales center.

- **Ask how much is the home as we see it**

Models can be filled with every upgrade the developer offers as an example for buyers. Buyers should ask freely how much the model costs as they see it. Typically this cost will vary dramatically from advertised starting prices for a development.

- **Pick the right developer**

Working with a developer is like a short-term marriage. Ask for references from the developers sales agents. Do your own investigation of the developers previous projects, length in business and complaints filed with business bureaus.

- **Consider resale characteristics**

The allure of being the first to occupy a home sometimes clouds a secondary location or poor craftsmanship. Consider a resale home in a primary location before signing on the line just because it's new construction.

- **Question percent of project sold**

Developers love to promote the sell-through of projects. Inquire how much of the percent sold are reservations (dating the project) versus contracts (engaged to the project). Some reservations don't go to contract because of a change of heart, financial concerns or occupancy timelines.

- **Have an attorney review all contracts**

Developers contracts favor the developer and are different from standard local real estate board approved contracts. Retain a real estate attorney to review all contracts. There is little wiggle-room once you sign a developers contract, and they don't like home sale contingencies.

- **Investigate property taxes independently**

Property taxes can be a financial surprise you weren't expecting with the purchase of a home. Because tax assessors haven't valued a home or project, developers

can underestimate how much the property taxes will be. Complete you own due diligence and call the local taxing authority to find out the worst-case scenerio.

- **Perform a home inspection**

Never skip or waive the right to an inspection, the benefits far outweigh the cost and could save you numerous headaches and expenses later. New construction is not immune from defects and lackluster workmanship. Hire a professional, not Uncle Bert. Perform the inspection at least seven days prior to closing.

- **Inquire about investor purchased units**

In the post-real-estate-bubble-world many developers contracts restricted purchase of units by speculators to flip at completion. Look for clauses in contracts that require purchasers of units to owner-occupy the first 12 months after closing. Ask sales agents what the percentage of owner occupancy is for the project.

- **Get a certificate of occupancy**

Local municipalities issue a certificate of occupancy after a unit has passed all building code inspections. Most mortgage lenders require a certificate of occupancy before they will close on a loan. If you are paying cash, verify prior to closing that the developer will deliver you a certificate.

- **Understand why developers request upgrades paid for in advance**

Experience has taught developers that some buyers will not purchase the unit which they have specified the floor-coverings, countertops and kitchen cabinets, that have been installed by the developer. Other buyers will want to select their own finishes and a unit that has preselected finishes by a terminated buyer is a marketing problem for developers. Plan on paying upfront for all upgrades and changes you make to a unit, and if you decide to walk from the project once you have paid for upgrades, expect a fight from the developer if you want a refund on installed changes and upgrades.

- **Require your deposits to go into an escrow account**

Require all deposits and payments you make go into an escrow account, not the developers business account. Research state brokerage laws to discover what regulations developers must follow with buyers funds. If disputes arise it is easier to receive refunds from a neutral third-party or escrow agent than from a developer.

- **Request copies of blueprints, floor plans and surveys**

It's easy to forget to get clean copies of blueprints and floor plans of your new home with all the activity and decisions during the construction process. In the future when you want to make changes or sell, having the footprint of your home will save you expense and time. Make sure the developer provides you with an updated survey, showing just your parcel. Verify that your new home also has its own parcel identification number issued by taxing authorities.

- **Research warranties on structure, finishes and appliances**

Developers typically offer five or ten year warranties on structural elements of a home and rely on manufacturers warranties for appliances, furnaces, windows and overhead garage doors. Beware of one-year warranties on structural elements.

Dont's

- **Forget to ask for holdbacks on unfinished work**

Weather or material supply problems can interrupt completion of a home. If some items aren't necessary for occupancy the developer will want to close on your home. Make sure any substantial items or features that are not completed in your new home, have designated funds set aside for their installation or completion. Request these funds be held back and deposited in an escrow account at closing.

- **Omit final written punch lists**

You should have a final walk-through at least three days before closing on your new home. Create a punch list of all uncompleted or unfinished items. Punch lists can also call attention to items that need to be repainted or need additional attention. Both the developer and the buyers should sign the final punch list in agreement. Developers should complete punch lists within 30 days of closing.

- **Tune out during construction process**

Family, work or distance can shift your focus away from closely monitoring the construction and completion of your new home. Proactive buyers can catch design mistakes or irregular materials by visiting the job site on a regular basis. For instance purposes some developers limit access to construction sites. Stipulate in purchase contracts the timing of all visits during construction of your new home.

- **Be fooled by low assessments**

Developers can use artificially low monthly homeowners assessments in new construction marketing materials. Plan on at least a twenty-five percent increase in assessments the first year after the developer delivers the association to the homeowners.

- **Overlook costs between standard and upgraded features**

There can be a large difference in quality and useful life spans between builder grade and upgraded finishes and

fixtures. It could be worth the additional expense to install better carpet, cabinets and faucets. Cross-check builder prices for upgrades at your local home center.

- **Ignore developer incentives as a signal of slow sales**

Free condominium assessments, stainless appliances and plasma tvs are thrown in to induce buyers to write contracts to purchase. What many buyers think are a freebie are actually signals that a development is slow to sell from increased competition or a lack of buyers. Incentives are a band-aid for a languished development.

- **Be surprised when developer holds firm on pricing**

Developers of popular projects don't typically negotiate on unit prices. However sometimes a developer will throw in upgraded appliances or hardwood floors in place of standard carpet. When a developer doesn't move on pricing it is because they have an investment formula for the project, which is typically costs plus twenty percent profit.

- **Disregard risks of buying pre-construction**

Pre-construction pricing can attract value-driven buyers. There is some risk entering into a project before it has started. Verify that the developer has received a green light from local building authorities and has a proven track record of timely completion in the community.

- **Postpone discovering costs of construction loans**

Variables beyond a developers control can prolong the completion of your home. Have contingency plans for cost overruns, temporary housing and bridge loans. Investigate rate-lock expiration dates on mortgages, construction or temporary loans.

Top Seven Tips for Buying New Construction Homes

New home communities are more popular than ever! With good reason — new home builders are using popular, open floor-plans, including appliances, sod, and blinds, and helping make it easier than ever to get into a new home with little or no money. New home transactions typically seem a lot easier, as well. If a buyer chose to, they could get through a new home transaction without contacting anyone except the on-site sales agent! However, this would open you up to HUGE losses. Take these simple steps to protect yourself in a new home transaction, and to ensure that yours is a success.

1. Use an Agent Who Has New Home Sales Experience

Many people think that they can save money by not using, or don't need the services of an Agent when buying a new construction home. This couldn't be further from the truth! New homebuilders typically try to monopolize a transaction — they only give you their attractive incentive packages if you agree, in writing, to use their lender, their title company, and sometimes even their insurance company! An Agent will walk you through the transaction and will make sure that you're protected every step of the way. If you've agreed to use the builder's lender, your Agent will make sure that you get a fair interest rate and fair closing costs. Your Agent will know what the industry standards are, and will make sure that the builder doesn't try and stretch beyond these. And best of all, an Agent with a lot of new home transactions under their belt will have established relationships with your homebuilder. Because of this, the homebuilder will be on their "best behavior." The homebuilder doesn't want to run the risk of getting a bad reputation in the Agent community, who can potentially bring the builder lots of homebuyers in the future.

2. Don't sign ANYTHING Until You've Worked Out Every Detail of the Sale

Buying a home can be very emotional — and it should be. You're not simply picking out a house; you're picking out where you'll spend the holidays next year, where your parents will come visit you, and where you might raise your children. However, the on-site sales agent will try to play on this emotion and get you to "write up the contract so that no one else can get your house." That's just fine, as long as you understand what you're signing, and everything is okay with you. Just remember — no matter what is said, everything will be done as it is outlined in the contract.

3. GET A HOME INSPECTION!!!

Most people who buy new construction homes don't bother to get a home inspection. Most new homes come with a one year "bumper to bumper" warranty that includes everything, and many homebuyers feel that they can find out if there are any construction flaws during those 12 months. The problem with this mindset is that many problems won't surface until well after the 12 months. Remember, your home was built by humans, and humans make mistakes. And, no matter how much experience and reputation a builder brings to the table, it's still next to impossible for that builder to double check every part of the job their subcontractors have completed. A licensed inspector will go through a very thorough checklist to make sure that everything has been accounted for. At the very least, get an inspection so that you can sleep soundly at night, knowing that an independent third party has given your new home their stamp of approval.

4. Don't Agree to Use Their Lender

Production builders (builders who can develop whole communities on their own) are now large corporations, many of them traded publicly. The corporations have realized that there is much more money to be made than simply selling you your new home — they'll also try and sell you a loan. Builders will offer HUGE incentives to get you into your new home, sometimes up to 15% of the value of the home. However, they will typically put one BIG stipulation on those incentives — that you use their lender. There

are many problems that will come up when you pigeon-hole yourself to one lender — higher rates and higher closing are the two biggest. The on-site sales associates will typically tell you that their hands are tied, you have to use their lender to get the incentives. I can tell you, from experience, that this is seldom the case. Remember, the builder's job — first and foremost — is to sell homes. If you refuse to sign on the dotted line unless this stipulation is removed, you will be successful — most of the time. There are rare occasions when a builder will lose sight of the fact that they build and sell homes — and will absolutely insist that you use their in-house lender. In these circumstances, walk away, no house is worth taking a bad loan and paying THOUSANDS more for that house in the long run.

5. Research the Builder

Most builders are “good” builders. They take simple steps to protect their neighborhoods. Research your builder, or ask your Agent if your builder takes these steps to make sure that your neighborhood won't instantly go down in value:

- a. Limit the # of investor purchases — this makes sure that the neighborhood doesn't turn into a “rental” neighborhood and allows the “pride of ownership” to shine through.
- b. Continues to build equal or greater value homes in the same and surrounding neighborhoods. Builders who avoid doing this create a “vacuum” in home prices and instantly devalue new home purchases.

6. Choose Your Appraiser

You're going to pay for an appraiser one way or another! The lender will require that you have an appraisal in order to loan you the money for the home! Additionally, most appraisers charge about the same money for the service — so why not choose your appraiser? Ask around until you've been referred to a good appraiser and request that they perform the service. Ask for a copy of it and read it! Call your appraiser if you have any questions. This will give you an in-depth knowledge of the market area — and it's something you would pay for, regardless!

7. Research City Plans

New neighborhoods are typically on the outskirts of town — the land is readily available and less expensive, which means that you can buy a bigger house for the same amount of money. In these outskirt communities, it's very important to know what the city has in store in the way of roads, zoning, public transportation, parks, and schools. These factors will dictate whether your new neighborhood will become the next “big thing,” or the next “cheap thing.” If you've decided to use a reputable Agent, your job will be easy! Simply ask your Agent and he/she will be able to provide you with lots of information about city plans that have been approved, and city plans that are still being talked about.

There are many benefits to purchasing a new home — that's why they're so popular! Make sure and protect yourself in any new home transaction by using qualified professionals to protect your interests. This will ensure that you'll not only love your new home, but you'll feel comfortable knowing that you're a winner in the transaction, as well!