



BUYING NEW, NOT USED

What you need to know before
purchasing a recently built
(or not-yet-built) home

BY LIZA N. BURBY

The homestead you've lived in for the past 40 years has its charms, but it may not be the best place for the next stage of your life. Maybe you'd like to downsize, be nearer to family members or live in a more walkable neighborhood. Maybe now that the kids are grown, you want to escape your school district's high property taxes. Maybe you're tired of living in a place with an ailing furnace, leaky roof, drafty windows and an overall worn-out look.

So it may make sense to trade your place in for a newly built house, townhome or condominium—or even one that right now exists only on paper. New homes likely have safer, stronger construction standards, greater energy efficiency and the latest safety features for older buyers, all without the worry of renovations and repairs. You have the chance to customize your home before you move in. And, as a bonus, you may even have a greater

sense of community, bonding with neighbors who are new to the place themselves.

If you're relocating, new construction may be your most realistic option. Inventory of older homes is tight; many homeowners with low-interest-rate mortgages would rather stay put than take on a higher rate. More than 33 percent of U.S. single-family homes for sale in the first quarter this year were new construction, up from less than 10 percent a decade earlier, according to Redfin.

But buying a newly built condo or single-family home can pose challenges unlike those that arise if you buy one that was previously occupied. Here's how to protect yourself in the process—and get the best price.

VET THE BUILDER

Let's say you've seen an ad, building or development that looks promising. What next?

Always check a builder's references to

gauge reliability and quality of work, says Joshua Correa, a custom home builder in Dallas. It helps to have a history: Has the builder been in business for a decade or only a year? Talk to past customers (the builder should be willing to make the introductions). Ask those residents to rate the overall construction quality and if there were significant delays or unexpected costs during the building process. Did they have any major issues after moving in? If so, how did the builder handle them?

If the new build is under construction, make an appointment to visit it or recent projects, so you can see the quality of the builder's work. Builders should want you to stop by to see what they do, Correa says. Can they explain how long the construction process will take and what factors could delay it? They should be able to show you what the home will look like in two months and then

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four. Pay attention to the craftsmanship—does the brickwork look straight?

Ask the builder how long it will typically take from the time you sign a contract until the home is move-in ready, which is when your lender will agree to a closing. Now that the supply chain issues of the pandemic have eased, build times for a typical single-family home are anywhere from 4½ to six months, Correa says. The timeline for condos varies depending on the size of the development.

NAIL DOWN THE HOME PRICE...

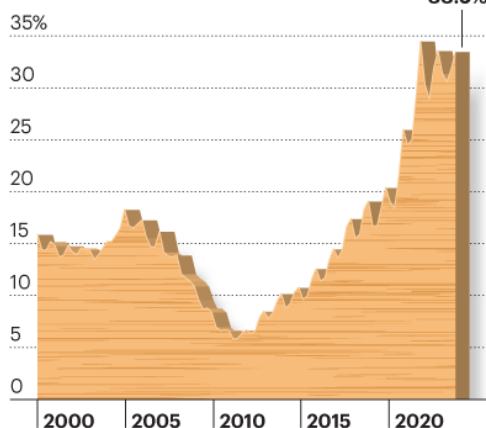
Don't assume the model home you tour is what your home is going to look like—or cost. That supersized walk-in shower with multiple showerheads, for instance, is a typical upgrade from a bathroom with a small shower and a bathtub. Countertop materials, high-end appliances and landscaping also tend to be add-ons. “The advertisement might say their homes start at \$300,000,” Correa says. “Part of a buyer's education is understanding what that base price is versus upgrades and add-ons.”

Prioritizing those add-ons to stay within your budget is important, says Kim Heller, a real estate broker with Baird & Warner in Downers Grove, Illinois. Start with the features that can't be easily added later, such as a bathroom off the kitchen. “Spend the money on your electrical outlets and your ceiling outlets, because a lot of times they don't offer those,” she says. “You might get two outlets per room and then none for a ceiling light.”

...AND THE FINANCING...

Many home builders offer buyers a one-stop-shop experience, which can include special financing incentives, discounts on homeowners insurance and credits toward upgrades. This is an area that's ripe for comparison shopping. “Some builders are offering interest rates that are a point below what the market is because they also own a mortgage company or they want to get the home sold,” Heller says.

SHARE OF HOMES FOR SALE THAT ARE NEW-BUILDS



SOURCES: REDFIN; NAR; CENSUS/HUD

Finding your own financing can be a challenge if you're buying a condo that's under construction, since most lenders will want a certain percentage of units under contract before underwriting a loan, says Tripti Kasal, senior vice president of residential sales at Baird & Warner in Chicago. “Often, a developer will enter an agreement with a lender prior to construction or marketing to provide financing for buyers. The builders will then refer buyers to that lender. It's not ‘seller financing’ per se, but the seller can provide buyers with a lender prepared to finance project loans,” she says.

...AND OTHER COSTS

One big hidden expense when buying new construction can be the property tax, Heller says. “I've had multiple experiences working with buyers where sales reps representing the builders never brought up the tax rate and acted surprised when asked about it,” she says. Homeowners association fees can be another surprise, particularly in over-55 communities. “The more amenities they offer, the more expensive it gets,” she says. Closing costs also might not be clearly explained, says Melissa Hoff of the Hoff Group at Compass in Weston, Florida. These could include a portion of a developer's impact fee—the cost associated with

putting in the community infrastructure and what they have to pay to contribute to schools.

SCRUTINIZE THE CONTRACT

Contracts for a new build home are typically much longer than those for existing homes and are often written to protect the builder, Hoff says. If a single-family home hasn't been started, the down payment and other terms depend on the builder's guidelines and contract. Contracts to buy a condo have to wait until the developer creates and files a legal entity, Kasal explains. Before then, you might sign a buyer agreement and put money down as a reservation, which may be refundable.

Some builders have a contract provision giving them the right to raise the price if their construction costs rise above a certain amount. “It's very important to know what your potential liability can be,” Hoff says. Even if the builder provides an attorney, make sure that you have an attorney of your own.

If you want to back out of a deal, perhaps because construction is behind schedule, it can be difficult to get money back, Hoff says: “But it's dependent on the builder's guidelines and how long they have to complete the build before they are in default.” Once homes go under contract, the earnest money—your deposit—may not be refundable, Kasal says. The rest of the money is due at closing.

INSPECT CAREFULLY

Heller had a client who requested a three-car garage but discovered too late that the builder had poured foundation concrete for only two-and-a-half cars. So if you're buying a home that hasn't been constructed, Heller recommends checking in regularly. Be there when the city or village inspectors come in to check construction stages including the concrete, drywall, electricity and plumbing. Ask the builder or project manager from the beginning if you can have an approximate timeline of when these inspections will take place.

Before closing, hire a third-party inspector; depending where you live, that might cost \$500. Look for an inspector experienced with new builds, because they're prone to problems unlike those of occupied homes, Kasal says. “I've been in a new construction where there was a dishwasher that wasn't attached to the water line,” she says. “So you want to turn on all the appliances and check the electricity just to make sure it's all working.”

Liza N. Burby is an award-winning journalist who writes about real estate and business for Newsday.

After You Buy ...

Once you move in to your new-construction home, address any major issues or anything safety-related with the builder as soon as they're discovered, Kasal says. A typical warranty covers

10 years for major structural components and one year for manufacturing defects, appliances and building materials, Hoff says. Hire an inspector again before those milestones, she suggests. That way you can have the builder address any issues you might not see on your own.