

## New Construction: Buyer's Guide

As with existing homes that are listed for sale, a Buyer should utilize the services of a qualified Realtor when looking at new construction. Most buyers do not even realize they can use a "Buyer Agent" when dealing with a builder. The fact is you can. Also, it is usually at no extra cost to you. This outline briefly describes some of the major benefits your Realtor can provide.

\* Representation: Buying a new home should be a pleasant experience. A person's level of comfort with the process is usually the determining factor in how pleasant the experience may seem. Each step in the building process presents the buyer with a vast amount of information that they must ultimately come to grips with. It is in this gathering and processing of information that a Realtor's assistance can be critical. A builder may or may not have a representative to assist you with the purchase. This representative, however, works directly for the builder. This representative is not required to look out for your best interest, they are only employed to facilitate the sale of the home. Your Realtor, on the other hand, can work as your "Buyer's Representative". This may seem like a subtle difference, but the distinction is crucial. Your Realtor will better understand your particular needs as a buyer and therefore, be able to assist you in matching your needs to the various options a builder may offer. A builder's rep may be quick to offer you a deal that sounds great on paper, but fail to mention the down side to that offer. That is not to criticize the builder's motives, it is just that your Buyer Agent can provide you with a second pair of eyes, ears and another heart that is looking out for you.

\* Searching: Looking for a new home can be very time consuming for the shopper especially if they are not familiar with the area. A Realtor may be able to assist you in this search by directing you to newer additions. Most builders aggressively market real estate offices and so agents should have access to information on a number of these additions. Also, a Realtor may be aware of builders' reputations. While there are literally hundreds of builders serving a major metropolitan area, these can be organized into two

primary categories. (1. The Custom Builder and 2. The Tract Builder). The Custom Builder tends to target the higher priced homes \$150,000+, and these builders may build only a limited number of homes per year. They will generally build to suit the buyer's plans and are somewhat more flexible on what they can put in a home, so long as the buyer can pay for it. The Tract Builder can provide more square footage for the dollar, but must work within the reasonable constraints of their predetermined floor plans. Tract Builders have begun to add more and more designs over the years and so are not as limited in flexibility as they once were. Good news travels fast! Owner satisfaction or dissatisfaction with a builder usually finds its way to the area Realtors rather quickly. Even if your Realtor has not had personal dealings with a particular builder, they may be able to find out information through their various resources.

*\* The Purchase*: Once you have located a home and are ready to buy, the Realtor's job is not over. While the builder usually provides the forms and even a Builder's Representative to assist the buyer with the paperwork, the rep may not be able to address all of your questions to your satisfaction. Your Realtor can assist you in this matter. Most builders will provide some sort of purchase agreement, and your Realtor can help explain the contract's terminology and then help you direct your questions more clearly to the Builder's Rep. Also, the Realtor may address questions you have overlooked or forgotten. Your Realtor is not an attorney, so if you have specific legal questions, you may want to consult an attorney. You should not sign anything until you are 100% comfortable with the contract. Also, most new homes are located within a subdivision. This subdivision is usually governed by covenants and restrictions which relate to property's usage and other matters. You and your Realtor should review these to see if there is anything objectionable to you in them before signing any contracts. If there is to be a Home Owners' Association, you should review information pertaining to its setup and operation, as well as your responsibilities relating to it. Most restrictions and associations are designed to insure an addition's cosmetic appeal and protect home owners' property values; however, any questions or concerns on these matters are best handled up front.

\* Financing: As with any large purchase, financing is a major concern. Unless you are in the mortgage business, this step may seem complex. Your Realtor can help clarify the language of your options as well as point out the pros and cons of different options. Many builders offer deals that seem very attractive on paper; however, there may be a down side to certain programs depending on your situation and particular needs. Your Realtor can help you maximize your buying options by helping you match your needs to the available financing packages. If a builder offers to pay your closing costs, find out which costs and get it in writing (your Realtor should have copies as well). Discount points, adjustable rates, buy downs and other options should bring questions. Again, your Realtor will be there to help. You may or may not request for your Realtor to attend your loan application, depending on your level of comfort.

\* The Construction Phase: If you are building from start (not buying a spec home or a model), you will probably have some questions during the construction phase, especially if you have not built before. While neither you nor your Realtor may be an expert in construction techniques and regulations, it is a good idea to monitor your home as it is being built. Not only is it fun to watch your dream rise from the ground, but it also will teach you about your home's interior structure. If you have a question during this phase, contact the builder and your Realtor immediately. You may wish to take a tape measure and check the framed floor plan against your floor plans, especially if you have a modified builder's design. Mistakes are not common but the builder's subcontractors are only human. After the home is complete, the builder will have you do a "Final Walk Through". You may wish for your Realtor to accompany you. During the walk through, you will look for any defects that may exist (painting touch-ups, chips in wood or counters, missing screws, etc.). You may also wish to hire a professional home inspector to review the home before closing. The builder will then correct these defects prior to closing or within a few days. In any case, get the promise in writing.

\* The Closing: Once the final walk through is complete, you will proceed to the closing (or settlement) on the home. You and your Realtor should have a chance to review the closing figures prior to closing. You

can then make sure the costs and financing agree with agreed upon terms. If everything is correct on the closing figures, you may still want your Realtor at closing in case any questions arise. Again, this depends on your comfort level.

\* Other Questions: (For buyers with a current home to sell). A common question I address concerns "Builder Guarantee Sale Plans". What are they? And, should the buyer use one? The "Guarantee Buy" offered now by many builders and area Realtors are offered to allow a buyer the ability to start their new home's construction without the worry of selling their current home, as the builder/Realtor is guaranteeing the sale (they will buy the home if it does not sell in the time allotted under the guarantee sale agreement.)

On the surface this all sounds great, but there are shortcomings to the guarantee sale that are often overlooked by buyers or glossed over by those offering the guarantee. One example would be, the guarantor will offer to buy your current home for a percentage of its value (usually 85-95%) minus any common selling expenses. Expenses include a brokerage fee, title fees, recording fees, prorated taxes and other fees may be added depending on the individual offering the program.

So, a person might say, "Well in the worst case, I will be losing \$4,000 or \$5,000. At least, I will know that I can move in my own time frame and I am not facing an uncertain selling market." There are serious problems with this thinking. First, in the scenario above, in the best case a seller will lose \$4,000-\$5,000. The usual case is more in the \$7,000-\$15,000 range. A second major concern is that under the Guarantee Program you are limited to use a Realtor that the builder provides. How do you know what that Realtor's abilities are? Secondly, how will the Realtor be assisting you with your purchase of the new home? This is a huge concern. Most of the Realtors will do little, if any, of the items noted earlier in this pamphlet. While the builder will pay them a commission, they see themselves primarily as a selling agent for your current home. That basically means they are being paid twice for one service. It is highly unlikely that you will be told about this, as builders often overlook the Buyer

Representation issues you face when buying their homes. Again, they are paid to sell their homes.

Also, you may question a Realtor's evaluation of your home. I have personally seen under pricing on the guarantees by as much as 10%. In this case, the seller's net would actually be around 72% of their home's value. Had the seller not asked for a second opinion, the seller could have lost 20% (in this case \$20,000). I was able to sell that home for its true value in less than 30 days and the seller kept their \$20,000. This is not to say that anyone intentionally did anything wrong. Maybe the Realtor just made a mistake, but it does draw attention to the dangers of using someone with whom you are not familiar or someone who lacks proper training. Unfortunately, in my opinion, many builders offering Guarantees often do not show great concern with the agents they select as Guarantors. As long as the Realtor is willing to Guarantee the sale, it makes the builder's job easier, because they can start construction on a buyer's new home. Again, little emphasis is placed on what really serves you long term. The bottom line is you will be best served in most cases by 1: Selecting a Realtor by reputation, 2: Selling your home for the best price the market allows and, 3: Then proceeding with the purchase of your new home.

\*This pamphlet represents my experiences in dealing with new construction and the various elements of the construction process. Statements included are meant to be general and not pointed at any particular builders or Realtors serving those builders. All builders and Realtors are different and have their own procedures for doing business. My statements are general entirely because there is such diversity in the construction processes from builder to builder. While I have worked with many area builders, there are many I have not. Therefore, there may be some variations on Guarantee Buyout options with other builders that I am not aware.