

A BUYER'S GUIDE ON

NEW CONSTRUCTION HOMES



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MORE INFORMATION**



NATIONAL BUILDER
TRADE IN
P R O G R A M



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The housing deficits and the task of finding an available home to buy are daunting. This deficit has caused a surge in the design and building of new homes. But, buying a newly constructed home from a builder can be a disadvantage to a buyer, versus an available resale home in the MLS. Builder's contracts are complicated and designed to give the builder a greater advantage. While you are contemplating shopping for a brand new home, it is ideal to seek a real estate agent's service, especially one who's knowledgeable enough to simplify the builder's contract for you. When finding a new neighborhood, the Builder's salesperson is present to show you around, and persuade you to purchase. The salesperson represents the interests of the Builder by helping to maximize profits to your detriment. For this reason, cautious and savvy buyers employ real estate agents to protect their interests too, typically at zero cost to the buyer.

WHAT YOU MUST KNOW PRIOR TO SHOPPING FOR A NEW CONSTRUCTION HOME

- Filling in the Builder's Registration Form
- Buyer's Agent Representation
- The Builder's Contract
- Price Bargaining, Inclusions, and Incentives
- Builders Policies and Contingencies
- Having a Home to Sell
- Base Price vs. Completed Price
- Soil Surveys, Engineering Reports & Water Table
- Maximizing a Limited Budget
- Construction Process, Quality & Defects
- New Construction & Deposit Money
- Important Dates During Construction and Repercussions
- Hiring an Experienced Real Estate Agent

CRITICAL QUESTIONS YOU MUST ASK BEFORE SIGNING A BUILDER'S CONTRACT

- Lot Selection
- Structural Upgrade
- Basement
- Electrical
- Voltage
- Flooring Material
- Builder Incentives/Mortgage Lending
- Property Taxes/Metro Districts
- Contracts & Deadlines
- Warranty Coverage
- Earnest Money Deposit



FILLING OUT THE BUILDERS REGISTRATION FORM

Convincingly, the builder's salesperson will want everyone to fill out a registration form as you step foot in the sales office or even online when you set an appointment. On this form is your personal information, including how you got to know about their development. Typically, the builder's salesperson would like to avoid paying fees to an agent; and this registration card will help them with their strategy to meet a home buyer without an agent. Whether you walk into the sales office with or without an agent, it is wise to check the box on the registration card/form that an agent represents you. However, you can choose not to fill a form out.

AGENT REPRESENTATION

Whether or not you utilize an agent, you are paying for agent representation. For every new construction home, there is roughly 3% set aside for every agent who brings a buyer. Most builders operate on a one-price policy which necessitates that negotiations are uniform and no additional incentive is without an agent. Builders realize the need for agents in the good-market days and ensure the long-term survival in down market times. They're careful in their relationship with agents which gives agents an advantage to negotiate better prices for buyers. It is not wise, not to have a real estate agent when you typically pay for one anyway to represent your interests.

If you were being sued in court for \$500,000 +/-, would you hire the other party's attorney to represent you or hire your own? This is the exact same thing.

THE BUILDER'S CONTRACT

Resale contracts typically are very buyer-friendly, as they generally allow full protection to buyers. However, the builders have a degree of liberty to change terms in the contract and are very much in favor of the Builder, not the buyer. The builder's contract is usually designed by the builder's attorney, which allows a greater advantage to the builder. The contract document is crafted and made to convince the buyer to forfeit their deposit if a deal fails to close.

An agent well-versed will carefully explain the rights of the Buyer as well as crucial deadlines and help the buyer terminate without forfeiting their deposit. Builders typically promise to complete the home in a few short months, though usually, the contract allows the builder to delay completion beyond two years without penalty. For these details, a buyer needs an agent well-versed who can simplify all the legalese in the builder's contract. Due to the contract documents' bulky nature, experienced agents usually ask for contract documents in advance, which help them understand all terms, take note of important dates to give a better explanation to buyers, and allow a smooth signing process. Usually, agents keep files of builders in their offices to arm them with information and get them prepared to always protect the buyer's interest.

PRICE BARGAINING, INCLUSIONS AND INCENTIVES

Negotiating prices, incentives, and inclusions can be more difficult than a buyer would expect. Often, builders make emphasis on the non-negotiability of prices. However, the non-negotiability of prices can yet be negotiable. A smart agent will always combine several factors to get a better deal for a buyer. Factors like neighborhood, lot selection, landscaping, incentives, quick move-in homes in the builder's inventory, and more.

BUILDER'S POLICIES AND CONTINGENCIES

Builders scarcely welcome a contingent offer and the few that do, have a time limit for the sale or a non-refundable earnest money deposit. The policies on contingencies are frustrating and hardly ever clear. If you could not afford your home within this time frame, the builder holds the right to terminate your contract and sell the home to an available buyer. The builder uses this often as a reason to hold back your earnest money deposit. Some builders that allow contingent offers give such allowance within a few short months and it's crucial to know their exact policy on contingent offers. Should the contingency not work as planned, the buyer is then compromised. They find themselves seeking temporary housing for months and having to move multiple times. Buyers need an agent that is experienced in managing new-construction time frames. The agent will plan the current home sale such that, it coincides well with the completion of the new home. This negotiation is dicey, given the need to manage, sign contracts, marketing time, and possession date.

HAVING A HOUSE TO SELL

If you have a house to sell, most builders will try to make you list it with one of their partner agents, and most of those agencies will be out to work for the Builder's interest, not the buyer's. The Builder and its partner agents have a pre-negotiated agreement with the agent. Usually, these agents are former Builder's salespersons who get a license to operate as agents. Their loyalty always lies with their former employer, the builder.

It would be advantageous if you had a trusted, reliable agent who will protect your interests, not the Builder's.

BUILDER'S BASE-PRICES

Base prices are often not as they appear or seem. They advertise at lower prices to call your attention, but final prices are much higher after inclusions such as upgrades, voltage options, landscaping, design center options, appliances, and lot premiums. The price you see advertised online or on a sign is usually never the actual purchase price. The model homes have lots of features that may not be present within the "real" home. It is necessary to ask what should and shouldn't be present or is or isn't included, even the basics such as lighting.

SOIL SURVEYS, ENGINEERING REPORTS & WATER TABLE

The type of soil will determine the type of building to be carried on it, and the necessary facilities to be attached. Depending on the type of soil, sometimes structural floors are required in homes. A well-versed agent can guide you on interpreting soil surveys and engineering reports regarding the lot, in addition to reading blueprints and floorplans, and advise you on the pros and cons on the lot chosen.

MAXIMIZING A LIMITED BUDGET

It is required to be strategic when maximizing your budget when dealing with a builder. A simple modification can be carried out more cost-effectively after closing on the house. Lot location, design center options, and structural upgrades break much of the buyer's budget. The builder sometimes may require more for a deposit if a buyer's choice goes beyond a limit. A real estate agent, on your behalf, questions the builder about financing, contingency terms, inclusions, and incentives, and will offer proper advice on how to maximize your budget.

CONSTRUCTION PROCESS, QUALITY AND DEFECTS

Often, defects and quality issues can arise during the construction process. The process of building a home is tough, and pointing out a fault in the process takes experience and expertise, as well as a good eye for detail. Your real estate agent can help you identify faults at all stages and persuade the builder to fix them as identified. The buyer will need to pay closer attention to the verbiage in their contract that concerns defects. It is worthy to note, builders will usually opt to fix defects rather than terminate a deal before delivering the home.

NEW CONSTRUCTION AND EARNEST/DEPOSIT MONEY

The need to protect your deposit money in a new-construction contract is a big concern. Builders often require larger deposits than usual. As earlier stated, they may request for additional design deposits before closing on a home. The contract clauses are often centered about "if the buyer fails to close on the home". These clauses afford the builder the right to keep the deposit if the deal fails. Also, the contract contains very few clauses to protect the buyer. Your real estate agent works with you closely to avoid unnecessary surprises.

INTEREST RATES DURING CONSTRUCTION & REPERCUSSIONS

There can be serious repercussions when interest rates hike while the home is under construction. Borrowers usually wouldn't lock in interest rates beyond 90 days in anticipation of closing. Dealing with new construction, an interest rate lock may not be completed within that time frame, posing a great risk. Buyers need to know how to manage their risks.

HIRING AN EXPERIENCED REAL ESTATE AGENT

According to the 90/10 rule, 90% of homes in the housing market are sold by just 10% of the top agents (i.e. for every 10 agents, only one will sell homes. Finding real estate agents that are well versed in real estate, specifically new-construction is very rare.

CRITICAL QUESTIONS YOU MUST ASK BEFORE SIGNING A BUILDER'S CONTRACT

LOT SELECTION/COMMUNITY INFO.

1. Request the reports of soil surveys and tests for the lot.
2. Price for the lot premium?
3. Is there a plan for a basement on the lot?
4. What options are available for the lot floor plans, elevations, and exterior paints?
5. Is the lot in the main entrance of the street or an exit of the subdivision?
6. Will the lot have a house behind it or next to it?
7. What is the orientation of the home and lot?
8. How close to a train track or oil well is the lot?
9. What will the position of the proposed home be?
10. What is the lot location in the subdivision?
11. What is the topography of the lot and the proposed drainage system?
12. Is the lot close to any body of water?
13. If the lot is on a golf course? Is there a human-made pond and how close? Also, what is the position of the tee box concerning the lot?
14. What phase of construction is the builder in and how long will there be construction in the area?
15. Is there a metro tax district and/or HOA? Do these fees provide any maintenance or utilities to the homeowner?

STRUCTURAL UPGRADES

1. What options or features may not be included in the base home version versus the model?
2. What elevation is included in the base price, and what is the cost difference for a premium elevation?
3. Find out what elevation can still be built on the lot of your interest?
4. What option of material is the base home to be sided with?

- A. Brick
- B. Aluminum Siding
- C. Stucco
- D. Masonite Lap Siding
- E. Synthetic EIFS

- F. Quarter Round Log Siding
- G. Concrete Lap Siding
- H. Concrete Fiber Sheet Siding
- I. Vinyl Siding

5. What options of roofing materials does the builder use?
 - A. Spanish Tiles
 - B. Steel Pro-Panel
 - C. Composition Shingles
6. What is the warranty coverage on composition roof shingles?
 - A. Premium Laminate (50 years and above)
 - B. 3-Tab Composition (20-30 year warranty)
 - C. Laminate/Dimensional shingles (30-50 year warranty)
7. If solar system panels are included, are they sold from the onset with the home or leased to you?
If leased to you:
 - A. Are they flat rate every month, or charged kilowatt per hour of utilized energy?
 - B. If there is excess energy production, who takes possession of sold average (homeowner or the leasing company)?
 - C. What is the period of the lease?
 - D. If you decide to sell the home, what are the requirements to transfer the lease to the new owner?
 - E. Who will be responsible for the renewal and re-installments of the solar panels?
 - F. Does the roof need repair?
8. To what degree will the interior of the garage be furnished?
9. Will the garage have an access door?
10. Will the kitchen come with a freestanding stove or a gourmet kitchen with a wall oven and cooktop?

BASEMENT

1. If the home includes a basement, what kind of basement is included?
 - A. Standard with a full basement
 - B. $\frac{3}{4}$ basement
 - C. $\frac{1}{2}$ basement
2. Does the home come with a full basement? If no:
 - A. What is the builder's upcharge for excavating a $\frac{3}{4}$ basement?
 - B. What is the builder's upcharge for a full basement?
3. How deep will the basement be?
 - A. Standard 8ft ceilings
 - B. Taller 9ft-12ft ceilings
4. If the standard basement is only 8ft, what is the builder's upcharge to excavate for a deeper basement?

5. What type of basement will the home be built with?
 - A. Standard
 - B. Garden-level basement
 - C. A walk-out basement
6. What material is the window wells of the basement?
 - A. Corrugated steel
 - B. Concrete
7. Does the Builder finish the basement or leave it unfinished?
8. If the basement is left unfinished, does the Builder provide any necessary infrastructure to be finished in the future (rough-ins for bathrooms, ductwork, egress windows)?
9. Will the HVAC ducting be enough to finish the basement, or will it need to be extended to comply with the building code?
10. What material will be used in constructing the basement floor?
 - A. Elevated wooden sub-floor and crawlspace
 - B. Concrete slab
 - C. Structural floor
11. What is the warranty coverage on the concrete basement floor, and garage floor?
12. Will the builder automatically install a sump-pump, into the sump pit?
13. Will the builder automatically install a radon mitigation system?

ELECTRICAL

1. Will the bedrooms come with wiring for a ceiling fixture and a wall switch or is it an option?
2. Will the bedrooms include a switched outlet for easy switching off-nightstand lamps and other appliances?
3. Will the laundry room be fitted with a 30amp, 220V outlet to power an electric dryer?
4. Will the garage be fitted with a 220V outlet for operating large tools?
5. Will the home have the ideal 220V outlet exterior wiring for a central A/C compressor?
6. On the model home light display, which is standard and optional on a base home?
7. Will the kitchen be fitted with 50 Amp, 220V outlets for an electric stove? Is set up for a gas stove with a 120V? What is the upcharge to run a gas line for the stove?

LOW VOLTAGE

1. Will the builder pre-wire the home for internet access, in all sections where you will place a router, or have a computer plugged directly into a wired signal?
2. Is this a "smart home"? If so, what is included?
3. Will the builder wire the home for a landline telephone in sections you may want a landline?
4. Will the builder fit the home with a coaxial cable for cable TV services and satellite in sections you would prefer them to be?

5. Will the builder automatically install sound systems in the home?
6. Will the local home security providers require pre-wiring for their current security system?

FLOORING MATERIALS

1. What type of flooring material will be used?
 - A. Wood flooring
 - B. 3/4-inch solid hardwood flooring
 - C. Engineered wood flooring
 - D. Synthetic laminate flooring product

BUILDER INCENTIVES

1. Are the Builder's advertised incentives contingent on using their lender or title company?
2. If the Builder's lenders cannot get you approved, will the builder allow the incentives with another lender of your choosing, if approved?
3. When interest rates increase to where you may not be qualified any longer, does the builder contract define this as a situation where you would forfeit your deposit, or does this situation qualify as a critical reason to have the builder refund your deposit money?

PROPERTY TAXES/METRO DISTRICT FEES

1. What is the tax rate that property taxes will be calculated with once the county re-evaluates the property taxes to include the actual home structure?

DEADLINES

1. What dates are all of the contractual deadlines outlining your opportunities to seal a purchase without forfeiting your deposit money?

WARRANTY COVERAGE

1. What is the time limit the entire home will be covered with a fully comprehensive warranty of all mechanical, structural, electrical, low-voltage, and exterior components?
2. What is the time limit of coverage of the home structural warranty covering against settling or heaving in the foundation?
3. When a component such as a water heater, or other appliances go bad, does the builder replace them or do they expect you to purchase the manufacturer's warranty?

EARNEST MONEY

1. Does the Builder's contract provide an initial rescission period, allowing the buyer to cancel the contract without penalty or forfeiting deposit money?
2. If there is no rescission period, what situation does the contract outline for you to cancel without loss of deposit?

The following are some reasons for a buyer to terminate a contract without forfeiture of deposit; however, this may vary with different builders:

1. The lender couldn't get you approved for financing.
2. The home is destroyed by natural disasters or fire, before the time of delivery.
3. The builder couldn't finish the home in the contractual time frame (typically two years).

Buyer acknowledges and understands that there are unique legal issues regarding the construction and purchase of a newly built home. Buyer acknowledges that Buyer has been advised by Broker that any new construction contract has important legal consequences.

BUYER ACKNOWLEDGES THAT BROKER HAS ADVISED BUYER TO HAVE THE CONTRACT EXAMINED BY A LAWYER OF BUYER'S CHOOSING BEFORE SIGNING ANY CONTRACT.

