

What You Need to Know About Buying a New Home from a Builder

With the shortage of existing homes for sale, many buyers are looking into buying a new home from a builder. There are many **advantages** to buying a new build, above and beyond the fact that you're getting all new appliances, roof, flooring, and the rest. **Among those benefits are:**

◆ **No bidding war!** You won't be able to negotiate down the price, but at the same time you will not have to pay more than the asking price.

◆ If you buy a "dirt start," you will have to wait six months or longer for your home to be built, but **you'll get to specify everything about it** — the floor plan, the carpeting, the paint, the counter tops, the appliances, the garage size and finishes, etc.

◆ If you come in toward the end of a subdivision's build-out, **you may get to buy one of the model homes**, complete with landscaping, higher end finishes, decorator painting and more. For one of my clients, the builder included the model home's furniture, but that's unusual, since the builder usually wants to use that furniture in a future model.

◆ Occasionally a buyer backs out of a new home purchase — losing their deposit and the money advanced for options — and **you'll be able to buy that home with less of a wait**, but also without the opportunity to change the finishes and options. A client of mine took advantage of just such an opportunity.

There are also some **negatives** you need to keep in mind when purchasing a new home from a builder. **Things you need to consider include:**

◆ **Builders are allowed to write their own purchase contracts** which protect the builder and not you, unlike the state-approved contracts, which are written to protect the buyer and are required when selling existing homes. Since Realtors like myself are only authorized to interpret and explain the state forms, **you'll have to hire a lawyer** to counsel you regarding builder-written documents.

◆ **Your deposit on a new home is not put into an escrow account** like the earnest money on a resale purchase. **The builder can spend your deposit on construction, and it's typically not returnable** if you decide to terminate. The earnest money on a resale purchase is held in escrow and fully refundable if you terminate under the terms of the purchase contract.

◆ Although builders may include some great finishes in the base price of their homes, you will likely want to specify extra-cost options from the builder's "design center," and **you'll be required to pay the cost of any upgrades in advance**. Those payments will also not be refundable if you terminate for whatever reason.

◆ You'd be well advised to **hire an inspector familiar with new construction** and have him inspect the house at framing, rough plumbing/electrical, drywall completion and prior to closing, but **there is no "inspection objection" contingency in the builder**

contracts. If you point out deficiencies identified by your inspector and bring them to the attention of your builder, he will typically accept that input and make things right, but **you won't have the right to terminate and get your deposit back**.

Note: We have several good inspectors to choose from on our **smartphone app**, which you can download free from the App Store or Google Play. (Search for "Golden Real Estate.")

◆ **New homes do not include window coverings or landscaping for the back yard**. These can be more expensive than you might think. Rita and I spent \$13,000 for window coverings and over \$50,000 on landscaping for a new home we bought in 2004. You won't have this cost with an existing home.

◆ **The property tax for new builds is typically 20 to 50 percent higher** than for homes in older subdivisions. As I've written in previous columns (which are archived at www.JimSmithColumns.com), most developers of new subdivisions create special tax districts to pay for infrastructure costs such as streets, sewers, sidewalks and common space, and require the buyers of their homes pay those costs through **significant tax levies that continue for 30 years**. Instead of quoting the mill levy, builders will quote you a percentage of the purchase price as a likely property tax expense, but what you need to know is how the mill levy for that subdivision compares with the mill levy for other subdivisions, including ones built in the 1900s or before. You'll be shocked at some of the mill levies, which are **truly a hidden cost of new homes**. I have only found one new subdivision, KB Homes' Westwoods Mesa subdivision in Arvada, which did not create one of those special tax districts.

Should you have a Realtor represent you?

Yes, you should hire a Realtor. As with resale transactions, the seller — in this case, the builder — pays the buyer's agent, and the buyer has the advantage of professional representation without paying for it. The builder will not reduce the purchase price if you forego such representation.

It is in your interest to have a Realtor represent you for several reasons that benefit you, including:

◆ You don't buy a home very often, and **you don't know all the questions to ask and points to con-**

sider (such as I've outlined above). Your Realtor and his colleagues have likely represented many buyers with multiple builders and know the builders' reputations and product lines. For example, I can tell you which builders build the most energy efficient homes with the lowest (best) HERS scores. You may not even know what a HERS score is, but one of us EcoBrokers can explain it to you.

◆ **Realtors can recommend an experienced real estate lawyer** to counsel you on builder contracts, and **trusted inspectors and contractors** to hire.

◆ Many builders offer incentives if you use their in-house lender, but **your Realtor has trusted lenders who might offer you a better deal**.

By giving your Realtor — or at least those of us at Golden Real Estate — the opportunity to represent you in your purchase, you will get other benefits. **These benefits could include:**

◆ **A discount on the listing commission on your current home**, not to mention help in selling your current house to a buyer who gives you the flexibility you need for moving into a home whose completion date could be uncertain. (I can share some good stories about how I've made that work for past clients.)

◆ **Free moving assistance or other money-saving benefits**. At Golden Real Estate, we provide free use of a moving truck, boxes, bubble wrap, etc. to our buyers and sellers, and if you hire us both to sell your current home and to buy your replacement home, we'll even provide **free labor** for your move. Call us for details of this major money-saving feature. A broker who doesn't have our moving trucks, etc., can still offer to rent a truck and buy those boxes for you. Ask!

Important: Talk to us early in the process!

Whether you use Golden Real Estate or another broker, **it's important that you talk to us before you register with a builder**. Most builders will only pay your agent if he or she accompanies you on the visit when you express interest in their homes and give your name.

If you have already identified yourself but have not signed any documents yet, **the builder may bend that rule**. After you've signed a purchase contract, it's too late. Ask your Realtor for business cards to provide when you visit builders' sales offices. Whether or not you hire me or another Golden Real Estate agent, we are happy to answer your questions. Call us!

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By **JIM SMITH**,
Realtor®



All Agents Are Certified EcoBrokers®

Jim Smith

Broker/Owner

Golden Real Estate, Inc.

DIRECT: 303-525-1851

EMAIL: Jim@GoldenRealEstate.com

17695 South Golden Road, Golden 80401

WEBSITE: www.GoldenRealEstate.com



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