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

by Mark Nash

The vision of a new home with the ability to upgrade finishes, alter floor plans and be the first to occupy a property lures buyers into builders and developers model homes every day. According to industry sources over 70% of home buyers want a new home. These new construction focused buyers might see a picket fence, but they should be prepared to ask the right questions and see red flags before signing on the line

### 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. 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. Also most builder's are "broker protected" and charge the same price whether you have your own agent or use theirs.
- **Ask how much this home is as you 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 developer's sales agents. Do your own investigation of the developers previous projects, length in business and complaints filed with business bureaus (or have your buyer agent do this).
- **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 a lawyer review all contracts.** Developers contracts favor the developer and are different from standard local real estate board approved contracts. Retain a real estate lawyer to review all contracts. There is little wiggle-room once you sign a developers contract, and they don't like home sale contingencies.

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- **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 your own due diligence and call the local taxing authority to find out the worst-case scenario.
- **Perform a home inspection.** Never skip or waive the right to a inspection, the benefits far out weigh the costs 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 developer contracts restrict 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 that 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 selected finishes by a terminated buyer is a marketing problem for developers. Plan to pay 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 (trust) 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 buyer's 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 it's own parcel identification number issued by taxing authorities.

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## Don'ts

- **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 (trust) account at closing.
- **Omit final written punch lists (checklists) .** 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 insurance 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 homeowner 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 assessments 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, fixtures 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 of a lack of buyers. Incentives are a band-aid for a languishing 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 prices it is because they have a 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

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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.

**About the Author:** Mark Nash's fourth real estate book "1001 Tips for Buying and Selling a Home" (2005) and a real estate broker in Chicago are the foundation for his consumer-centric real estate perspective which has been featured on CBS The Early Show, Bloomberg TV, Fidelity Investor's Weekly, Dow Jones Market Watch, MSNBC.com, The New York Times, Universal Press Syndicate and USA Today. [www.MarkNashRealtor.com](http://www.MarkNashRealtor.com)

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