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Building new: Pros and cons

Barbara Ballinger
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Some may love vintage condos and cooperative multifamily buildings with their roomy closets, high ceilings, thick molding and aged floorboards. But others equate this genre with frequent and pricey repairs.

For them, new construction is the goal, whether they buy from blueprints and make some changes, perhaps, move a wall, or take a completed unit as is. In either scenario, getting in early may provide the nice perk of a lower price.

But with the downturn in the economy, some builders and developers, also referred to as sponsors, don't have funds to complete projects because their financing dried up or their buyers vanished when they lost jobs or savings. In some very tough markets, presale before construction no longer occurs, says Vikki Robbins, partner with Pace Builder Services Inc. in Jacksonville, Fla., which manages operation, sales and marketing of multifamily projects. Fortunately, homeowners can take steps to help ensure that they get the (new) home of their dreams according to their time frame and budget. Here are five worth heeding:



Ask about a developer's financing. Know whether the developer has received approval for government-backed financing since those who don't may not be able to move projects forward. Banks also may not advance funds to begin construction unless a certain percentage of units are sold to owner-occupied buyers or second homeowners, with the number dependent on bank, municipality and state, Robbins says. If a developer hasn't received approval, find out where it is in the process, Robbins adds. Also ask to see a sales prospectus since it reveals key information, says Elie Hirschfeld, president of Hirschfeld Properties LLC in New York, a development firm.

Dig for information about a developer's reputation. Search on the Internet for details about prior projects and pending or past litigation, says Gea Elika, founder and principal broker of Elika Associates, a New York buyers' agency. Ask other professionals - lenders, attorneys, salespeople - whether the developer has delivered prior projects on time and without problems, says Janelle Gordon, a broker with Sudler Sotheby's International Realty in Chicago.

Find out about neighbors. Ask how many buyers have signed contracts, closed and plan to occupy their residence on a permanent basis or as a second homeowner, or if they plan to use it as an investment and rent, if permitted. Homeowners aren't the only ones who seek this information. "Banks need to know the number of owner-occupied units when they lend money," says Carolyn Jones, a New York real-estate attorney with law firm Kelley, Drye & Warren LLP.

Read the sales contract or offering plan thoroughly. It provides important information such as the building's budget, unit specifications, by-laws, etc., Jones says. "You want to be sure that expenses for management fees, staff, insurance, maintenance and other charges don't exceed income, and also want to be sure that big-line items aren't missing or look inadequate." Your contract should also state how your deposit is held, Robbins says.

"A portion may go toward construction and equity but another portion should be held in escrow by a third-party. One of the biggest problems for those burned was that some developers used deposit money for construction. If they went out of business before the project came to fruition, consumers were out of pocket," she says.

Furthermore, the contract should spell out what the price tag is for. "You want a detailed spec list on everything you're getting," Gordon says. But know that developers may put into the offering some wiggle room for themselves such as their ability to deviate by 10 percent on square footage or change appliances, Jones adds. Also be sure you have details on how problems will be resolved such as workmanship that becomes a problem within a certain period since new construction can settle over time, says Erika.

Check finished work. Consider hiring a building inspector to go through your unit before moving in, so you know construction was completed properly and according to building codes, Robbins says.

The more due diligence you do upfront, the greater your enjoyment in living there will be and the easier it may be to sell, Jones says.