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Your Step-by-Step Guide to Purchasing a New Construction Condominium

Planning for a future forever home is so exciting. But it comes with a lot to think about ... location, financing, completion dates, and, most fun of all, condo finishes. Getting caught up in the incredible moment is easy once you've decided to purchase a new property. But educating yourself as much as possible on the process is also important. Arming yourself with knowledge will give you the confidence to move forward.

But as the saying goes, we don't know what we don't know. Luckily for you, I have facilitated the purchase of new construction for my clients for the past 22 years. In that time, I have amassed a wealth of knowledge. So, I've created a step-by-step outline of what to anticipate in the process.

Research the developer. Research and investigate past projects. Ensure that the developer has the experience and team to will deliver. The information you gather might not make you reconsider your decision, but it's always a good idea to have all the information available.

Reservations. A reservation agreement is frequently used when a developer is not ready to go to contract, meaning **a buyer reserves the right to buy the property**. A reservation usually requires a 10% refundable deposit.

Entering into a reservation agreement is very appealing for many reasons. It allows a buyer to buy the property at attractive initial pricing. And it gives the buyer additional time to learn about the property and the neighborhood. Once the developer has the contracts and the buyer decides to sign them, the 15-day rescission period begins (see rescission below).

The floor plan. One of the biggest perks of new construction is making changes to the details of a floor plan. Changes may be as simple as adding a closet or removing a wall, or as complicated as changing the position of a vent in the kitchen. Review your desired floor plan to see what changes you would like made, and consult the developer to find out if your changes are possible. Working with an interior designer during this process is an excellent idea.

Measurement of the floor plan. Developers measure wall to wall, and counties measure wall to fixture, creating a difference in the square footage of approximately 10%. For example, suppose the developer's floor plan is 3,000 air-conditioned sq. ft. In that case, the county will usually record about 2,700 sq. ft. This is to your advantage, since the county looks at the lower square footage when assessing your tax liability.

The contract. Always have a real estate attorney review the agreement for you. You might think the contract the developer presents is set in stone. But you have the power to make changes and negotiate aspects of the contract. Your attorney can create an addendum and submit it to the developer's attorney during the 15-day rescission period.

Name on the contract. There is less liability and more significant tax ramifications to entering into a contract as an entity instead of an individual, which is why the name on the agreement needs to be an entity rather than your personal name. The developer will allow you to assign the contract from your personal name to an entity, but it's best to do so from the start. Discuss this with your real estate attorney.

Negotiations. Some developers may negotiate pricing and/or include additional options in condo pricing. These options may include a second parking spot, a storage unit, upgraded appliances, a tiled terrace, or an electric hook-up for motorized shades. Always ask. If you don't ask, you won't receive it.

Deposit structure. Typically, a deposit is between 30% to 50% of the purchase price broken down into 10% payments based on measurable timelines. For example, 5% with the contract, 5% 120 days after the contract signing, 10% at groundbreaking, and 10% at top off. Developers may extend the structure. Again, always ask for your ideal situation.

Rescission period. Rescission refers to the right to cancel. In the state of Florida, there's a 15-day rescission period on new construction condominiums. The rescission period begins on the date the buyer signs the contract. During this period, buyers should exercise all due diligence. Consulting an interior designer is prudent during this period in the event the floor plan changes you were envisioning become too cost-prohibitive. (Note, the 15-day rescission only applies to new construction condos. New construction single-family homes do not have a rescission period.)

During these 15 days, if the buyer determines they do not want to move forward with the purchase, they must send a termination letter to the developer with wiring instructions, and all deposits will be returned in full.



St Regis Residences, Miami



The Ritz-Carlton Pompano Beach



Developer finishes. When it's time to finish the inside of your condo, the developer will give you options for flooring, cabinet colors, and countertops. Consulting an interior designer can also be very helpful at this stage. And don't forget to confirm that flooring for the terrace is included.

Financing. The contract is not contingent on funding; however, a buyer may finance the cost of the unit. It is important to request construction updates so you and your lender can plan accordingly. Doing all the work in advance is suggested. Once the building gets its TCO (temporary certificate of occupancy), your lender can request the appraisal. Once the assessment is done, the loan will go into underwriting. To avoid delays, it's best to have the property appraised at least 20 days before the desired closing. But, developers will typically allow one request for an extension to the closing.

Pre-closing inspection. There is an opportunity to do a pre-closing inspection or punch list inspection with a representative from the development company. That's the time to go through the entire property and identify anything that needs repair. I always suggest hiring a licensed inspector for the pre-closing inspection. They will often find many more items than an untrained person. These items include chipped tiles, smudged grout, missing light bulbs, dented appliances, and leaking faucets. It's important to mark as many things as you notice, regardless of how small, as the developer must repair the punch list items. This will be the only opportunity to do so before the closing.

Closing date. The developer will send a 10-day notice to close. It's critical to communicate the information to your lender immediately to ensure it has ample time to complete your loan. The developer usually grants one extension with a written request if delays are necessary.

Additional Costs to Consider When Purchasing New Construction

Condo finishes. Some condos are delivered with just the basics - floors, closets, and basic lighting. Determine what you'll need to make your condo feel finished before moving in, and consider this in your overall costs.

Maintenance. Know the monthly maintenance fee. It ranges from \$1 to \$2 per sq. ft., but the cost may change from when you sign the contract to when you go to closing.

Closing Cost Expenses

Capital contribution. This is the equivalent of two months' maintenance fees.

Developer fee. This ranges from 1.50% to 1.80% of the purchase price. This fee makes up the majority of closing costs. Sometimes the developer may negotiate a lower percentage, but that's not expected.

Royalty fee. When buying a branded condo, like at the Ritz-Carlton, for example, there may be a royalty fee of 2% to 5% of the purchase price.