

# Selling New Construction Homes: What New Agents Need to Know



By: Real Estate Express



Everyone remembers the real estate market crash of 2008. But since then, the market has recovered. Home sales have been strong and property values have continued to go up. With a shortage of resale inventory becoming problematic in more and more areas, new construction is looking stronger than ever. According to the [latest residential sales report](#) jointly released by the U.S. Census Bureau and U.S. Department of Housing and Urban Development, builders pulled 5.7 percent more permits from July to August 2017. And the number of permits pulled in August 2017 was up 8.3 percent from the previous August.

New construction can offer a great opportunity to find the perfect home for your buyers, but purchasing from a builder is a lot different from buying resale homes. What should you, as a newbie to the real estate business, know about selling new construction homes?

## Know exactly why buyers need you

When it comes to purchasing new construction, there is a common misconception among buyers that the process is pretty straightforward: walk into the builder's office, pick a lot and design, and sign on the dotted line. What many potential buyers don't consider is that the friendly and helpful salesperson working for the builder at a new-home site is representing the builder—and is there only to look after the builder's best interests. As a real estate agent, it's your job to know that buyers who are not represented by their agent are taking a big risk with what is probably their biggest investment.

Some new-home buyers also believe that if they do not use a buyer's agent for purchasing a new home, the builder will reduce the home price by the amount of the commission that would have been paid. This is simply not true. Builders don't want to lower prices because that will have an impact on future home sales in that neighborhood. Furthermore, builders expect to pay commissions to buyers' agents, so they figure that cost into their marketing budgets. Buyers who opt out of working with their agent are not saving themselves any money. The commission that was not paid will go straight to the builder's salesperson, or the builder will keep it as profit.

Chapel Hill, North Carolina, real estate agent [Marianne Howell Wright](#) points out another potential issue: If a builder is having financial problems, an agent is far more likely to recognize the telltale signs or to have heard from suppliers that the builder isn't paying their bills. An initial deposit on construction can be as much as 10 percent of the purchase price, so there is a lot of money at stake.

Buying a brand-new home is a complex process. As a buyer's agent, it is your job to ensure that details of the sale are not overlooked. You will make sure that upgrades and custom features happen as they were agreed upon. You will be there for periodic walk-throughs of the new home, both during construction and at closing. There are myriad items with a new build that can easily be forgotten. As long as you ensure the correct documentation is in place, there should be no problem getting the builder to correct mistakes.

## Prepare to negotiate

The builder's salesperson will usually give the impression that sale prices aren't negotiable. Although there is some truth to that, as a buyer's agent you know there is some leverage. Builders who won't budge on sales prices, for instance, may instead offer to pay closing costs or provide design upgrades.

Another important factor is the timing of the sale. Knowing when it's best for clients to buy or to hold off can save your clients a lot of money. For instance, if a new phase of construction is set to start, this can mean the purchase price of properties from the previous phase is set to go up. Reserving a property before that can mean big savings for buyers—as well as instant equity.

Unlike regular sellers, builders are not emotionally attached to their properties. Their decisions are based on what is best for their bottom line. Time is money, and every day a builder has a home sitting on the market is a day they are losing money. As a buyer's agent, you can seek out builder inventory that has been on the market for a while—and you can often negotiate a good deal.

## Realize there are always additional costs

Every builder is different, and what is standard for one might be an upgrade for another. Most builders incorporate the best design options in their model homes, so the model isn't always representative of what buyers will get. The builder shows these options in their models because they are hoping buyers will like them and add them on.

Make sure your buyers know that these upgrades come at a cost. When touring the model home, find out exactly what options are standard and what upgrades are available for an additional cost. This will help to avoid any surprises later on.

# Educate yourself on selling new construction homes

Learn about elements unique to the new-home market, including architectural design, blueprint reading, site design, construction methods and materials, and so forth. These skills will come in handy when it is time to help your clients chose the best lot or make sure the construction drawings match the home your clients are expecting to be built.

If possible, shadow another agent who has first-hand experience working with home builders in your market. Not only does this provide you with a good way to get to know local builders, but you can also see close up how the new construction process works.

The bottom line: New construction offers exciting opportunities for buyers. When selling new construction homes, make sure your clients know how important it is that their interests be protected.

## **JOBS JOBS JOBS!!!**

Home building generates substantial local economic activity, including new income and jobs for residents, and additional revenue for local governments. The National Association of Home Builders has developed a model to estimate these economic benefits. The model captures the effect of the construction activity itself, the ripple impact that occurs when income earned from construction activity is spent and recycles in the local economy, and the ongoing impact that results from new homes becoming occupied by residents who pay taxes and buy locally produced goods and services. In order to fully appreciate the positive impact residential construction has on a community, it is important to include the ripple effects and the ongoing benefits. Since the model was initially developed in 1996, NAHB has used it successfully to estimate the impacts of construction in over 800 projects, local jurisdictions, metropolitan areas, non-metropolitan counties, and states across the country.

This report presents separate estimates of the local area impacts of building 100 single-family homes, 100 rental apartments and \$1 million worth of spending on residential remodeling. As described more fully below, most of the key inputs (such as value of the homes being built, and impact fees and property taxes per dollar of new construction) are based on national averages. Other than construction-related fees and residential property taxes, local government revenue is determined by aggregating line items for all 89,000-plus local governments in the U.S. in the latest Census of Governments.

For purposes of the NAHB model, a local area must be large enough to include the places where construction workers live and spend their money, as well as the places where the new home occupants are likely to work, shop, and go for recreation. In practice, this usually means a Metropolitan Statistical Area (MSA) or Metropolitan Division, as defined by the U.S. Office of Management and Budget (OMB) based on local commuting patterns. Outside of an MSA, many counties are relatively self-contained areas that will satisfy the above criteria for a local area.

The NAHB model produces impacts on income and employment in 16 industries and local government, as well as detailed information about taxes and other types of local government revenue. Aggregate results are summarized below. Subsequent sections of the report show detail by industry and type of tax or fee revenue generated.

### **Single-Family Construction**

- The estimated one-year impacts of building 100 single-family homes in a typical local area include
  - **\$28.7 million** in local income,
  - **\$3.6 million** in taxes and other revenue for local governments, and
  - **394** local jobs.

These are local impacts, representing income and jobs for residents of an average metropolitan area or nonmetropolitan county, and other sources of revenue, including permit fees) for all local jurisdictions within the local area. They are also one-year impacts that include both the direct and indirect impact of the construction activity itself, and the impact of local residents who earn money from the construction activity spending part of it



within the local area. Local jobs are measured in full time equivalents—i.e., one reported job represents enough work to keep one worker employed full-time for a year, based on average hours worked per week by full-time employees in the industry. The one-year estimates also assume that construction materials are subject to a local sales tax of 1.52 percent, an average (weighted by population) computed by NAHB across rates for individual states reported by the Tax Foundation.

- The additional, annually recurring impacts of building 100 single-family homes in a typical local area include

- **\$4.1 million** in local income,
- **\$1.0 million** in taxes and other revenue for local governments, and
- **69** local jobs.

These are ongoing, annual local impacts that result from the new homes becoming occupied, and the occupants paying taxes and otherwise participating in the local economy year after year. The ongoing impacts also include the effect of increased property taxes, based on the difference between the value of raw land and the value of a completed housing unit on a finished lot, assuming that raw land would be taxed at the same rate as the completed housing unit.

The above impacts were calculated assuming that new single-family homes built in a typical metropolitan area or nonmetropolitan county have an average price of \$378,000; which includes \$48,000 in raw land value and \$13,672 in permit, hook-up, impact and other fees paid to local governments; and incur an average property tax of \$4,239 per year. The house price and raw land value are based on a blended average of prices of new homes built for sale and contract prices for custom homes built on the homeowner's land, from the Census Bureau's Survey of Construction (along with assumptions about raw land and other factors the Census Bureau uses when processing construction value in the survey).<sup>1</sup> The impact fees are based on a national average percentage estimated by NAHB in a 2011 article.<sup>2</sup> The property tax payment is based on a national average computed from the Census Bureau's American Community Survey summary files.