

New Homes & Vacation Homes - Q & A

Q: Can you negotiate the price on new homes?

A: It can be difficult to negotiate the sales price with a developer because they may claim their prices are based on fixed construction costs. But it doesn't hurt to try.

Experts say builders are more likely to be flexible on price at the very beginning and the very end of a development project. Early on, most developers want to move people in quickly so the project picks up momentum. Later, developers may be more inclined to accept lower offers when only a few units remain.

If negotiating the price doesn't work, buyers commonly negotiate for better amenities (upgrade carpet, light fixtures, etc.) or lot location. Experts say a developer will rarely pass up a deal over a couple hundred dollars' worth of carpeting, for example.

Q: Should I buy a vacation home?

A: Today a vacation home may be purchased for investment purposes as well as enjoyment. And yes, there may be tax benefits, but check with your tax professional.

Some people buy a vacation home with the idea of turning it into a permanent retirement home down the road, which puts them ahead on their payments. Another benefit is that the interest and property taxes are tax deductible, which helps to offset the cost of paying for a second home. A vacation home also can be depreciated if you live in it less than 14 days a year.

Resources:

* "Real Estate Investing From A to Z," William Pivar, Probus Publishing, Chicago; 1993.

* "The Ultimate Language of Real Estate," John Reilly, Dearborn Financial Publishing, Chicago; 1993.

Q: What do you think of a vacation home as an investment?

A: You can buy a vacation home today for investment purposes as well as enjoyment. And yes, there may be tax benefits.

Some people buy a vacation home to use as a permanent retirement home later, which allows them to get ahead on their payments. Another benefit is that the interest and property taxes on a vacation home are tax-deductible.

Some real estate experts predict that vacation homes will appreciate in value due to rising demand from the aging Baby Boom generation. You also may be able to depreciate the property if you live in the house less than 14 days a year. Again, check with your tax professional.

You also need to consider whether you can afford to carry two mortgages, pay for the extra utilities and maintenance costs, and how this investment fits into your total personal finance picture.

Q: Do builders give financing?

A: Builders often include financing programs to help move more buyers into a project early on. If it's a buyer's market in your area, you can be sure that developers will offer incentives such as low-down-payment financing.

Q: Where can I get a list of home builders?

A: For a list of home builders, contact the National Association of Home Builders at 201 15th St., N.W., Washington, DC 20005; (202) 822-0200, or your local Building Industry Association office.

Q: Should I hire a home inspector for a new home?

A: Most experts recommend having a home inspected, new or old. For new home, ask the builder to provide copies of any inspection reports on the property, architectural plans, surveys and pertinent construction documents for your inspector to review. Your inspector should either be a professional home inspector, an engineer, an architect or a contractor.

If you hire a professional inspector, look for one who belongs to one of the home inspection trade organizations. The American Society of Home Inspectors (ASHI) has developed formal inspection guidelines and a professional code of ethics for its members. Membership to ASHI is not automatic; proven field experience and technical knowledge about structures and their various systems and appliances are prerequisites.

Rates for the service vary greatly. Many inspectors charge about \$400, but costs go up with the scope of the inspection.

Q: What are some new-home cautions?

A: When you buy a resale home, you can find out a lot more about the property and the neighborhood before you buy than when you buy a new home.

Land to support new-home developments usually is located on the outskirts of town. Potential buyers should ask the developer about future access to public transit, entertainment activities, shopping centers, churches and schools. Find out how far it is to the nearest library, for example.

Local zoning ordinances also should be reviewed. A rather remote area can turn into a fast-food-chain haven within a couple of years. Try to ensure that the neighborhood, if not strictly residential, will not begin sprawling out of control.

Q: What about new versus previously owned?

A: Although new homes typically have a higher sales price than comparable existing homes, buyers are willing to spend more upfront with an understanding that part of what they are paying for is assured low maintenance costs. A builder's warranty, along with brand-new roof, appliances, furnace and other operating systems that make major repairs unnecessary, work together to counteract possible slower

appreciation initially.

Data from the U.S. Census Bureau's 1991 American Housing Survey suggest that operating costs per house are lowest for brand-new homes, slightly higher for relatively new existing homes but lower on average for older existing homes. Measured per square foot of living space, however, operating costs are consistently higher for progressively older existing homes.

Utility costs are the largest component of operating costs. Energy consumption per square foot depends on size of the home, insulation, window quality, air leakage and efficiency of the furnace. Operating costs also include expenditures for both routine maintenance and major repairs.

Q: What are considerations to buying a new home?

A: Builders may have a target market in mind for their new-home projects. Some may tout communities as glamorous to upscale urban professionals seeking amenities such as a golf course, hot tubs and tennis courts. Yet a playground and swimming pool might be central to a project geared toward families while the next one offers seniors a walking trail and an easy-to-care-for yard.

Do not be tempted to move into a "glamorous" community where you might be able to afford the house but not the lifestyle. In addition, similar-looking new houses often come complete with restrictions imposed by the developer on house color, landscaping, renovations and anything else a homeowner possibly could do to make their house deviate from the preferred look.

Marketing experts try to appeal to buyer's tastes by their promoting images for their developments. Don't buy into it. Form your own opinions and only buy a home where you feel comfortable. After all, you're going to have to live there.

Q: What is the return on new versus previously owned homes?

A: Buying into a new-home community may seem riskier than purchasing a house in an established neighborhood, but any increase in home value depends upon the same factors: quality of the neighborhood, growth in the local housing market and the state of the overall economy.

One survey by the NATIONAL ASSOCIATION OF REALTORS® shows that resale homes do have an edge over new homes. The trade group's figures show the median price of resale homes increased 3 percent between 1994 and 1995, compared to 0.8 percent for new homes in the same period.
