

Choosing Between Older and New Construction Homes

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The following is a true story. Only names and a few details have been changed.

Andy & Lisa loved the convenience of living near the quaint downtown core of their community. They lived in a pretty, mature area within walking distance of a farmer's market, live theatre and community events. They were also just a short walk from the GO station. Lisa took the train to work daily allowing them to get by with just one car.

Lisa and Andy had been renting an apartment and wanted to buy a home in the same area. Recent university graduates with heavy student loans, they wanted a duplex for the rental income it would provide. Not long after they started looking, a top/bottom duplex came on the market just down the street. The décor left much to be desired but they were up to the challenge of painting and updating the interior.

A home inspection revealed no major structural problems, although there were a number of aging features that would eventually need to be replaced. Andy & Lisa did some quick calculations and found that with the rental income from the upstairs apartment, their monthly costs to live in the duplex would be less than what they were currently paying in rent. They figured owning was better than renting and made an offer to purchase.

With great enthusiasm, the fix-ups began. Fortunately the upper unit was already rented to a happy tenant who wanted to stay. Before moving into the main level of the home, Lisa painted the entire apartment. For the kitchen they purchased a new sink and countertop and installed pot lights in a drop ceiling. The master bedroom had a tiny corner closet which they ripped out and replaced with a fabulous wardrobe that lined an entire wall. Finally, they paid a contractor to come in and redo the bathroom, installing a new tub and shower with a tiled surround, pedestal sink, toilet and ceramic tile floor.

Unfortunately, the cosmetic improvements were not all that was needed. The first problem appeared when Lisa noticed water seeping into the basement. They hired a waterproofer to dig up outside the foundation and properly seal the wall from the outside and replace the aging basement windows. Then, as Andy pulled down a walled off corner in the basement, he discovered an abandoned oil tank! Figuring they were better safe than sorry, they

paid to have the tank professionally removed and disposed of. As winter arrived, they discovered that the floor on the back extension wasn't properly insulated. Andy spent an entire Saturday pressing pink insulation batting in between the joists from the crawlspace beneath.

Over the next year, they replaced decaying windows and had the wood exterior around the windows professionally stripped and repainted. One summer, a freak storm blew through and knocked down a large tree in their backyard. Fortunately they had a friend who could help with the huge job to cut up and clear away this giant tree from their backyard. Eventually their tenants gave notice and they took the opportunity to update the upstairs bathroom and have the apartment painted before a new tenant moved in.

Taking stock of their situation, they were shocked at how much time and money they had spent in maintenance and improvements. While they had accomplished a lot, they also spent a lot more than they had anticipated. Further repairs were looming: the driveway needed repaving, the roof would soon need to be replaced and the furnace had only a couple useful years left. Fortunately the strong real estate market had increased the value of their home beyond what they had spent on repairs and improvements. It had been a lot of hard work but for them it was worth the effort to live in their preferred neighbourhood.

Established Neighbourhood versus New Developments

Lisa and Andy enjoyed the many benefits of living in an established neighbourhood near the downtown core. However, they also learned firsthand the risks involved in buying an older home in need of work. Many people buy outdated homes with the hope of fixing them up and turning a profit, but there are no guarantees. While a home inspection should forewarn of major problems, there is always the possibility of unanticipated expenses. It is easy to love the charm that comes with an older home and leafy neighbourhood. However, sometimes the trade-off is an expensive list of repair items necessary just to maintain the home in its current condition.

At the other end of the home buying spectrum is the brand new construction home, often purchased even before the builder breaks ground. While newer homes are always in demand, many people don't want to buy a home pre-construction because they don't want

to buy from floor plans. Others don't want to move into a neighbourhood that is not completely finished or accept the smaller lot sizes and fewer trees. Unlike Andy and Lisa's home, new home developments tend to be built on the edges of town, farther from the amenities found in the community centre.

However, for these reasons, new homes are often sold at a discount compared to similar homes in established areas. A lower purchase price means greater appreciation in the first few years as the development is completed and amenities are built nearby.

Benefits of New Homes

Despite the drawbacks above, newer homes are very desirable and boast many of the qualities buyers want. You can expect nine foot ceilings on the main floor, hardwood and ceramic tile flooring, larger kitchens with ample cupboard space and a separate powder room for guests. The master bedroom often has an ensuite bathroom with a separate shower and soaker tub, plus a spacious walk-in closet. As a new home purchaser, you enjoy these benefits while you live in the home. When it is time to sell, these desirable features will help you secure a quicker sale and a higher selling price.

Builders usually offer a bonus of several thousand dollars in free upgrades. Investing this money in higher quality flooring, such as extending the hardwood in the family room or upstairs hallway, or upgrading the carpet and underpad in the bedrooms is a great way to further increase the resale value. Kitchens are another beneficial place to upgrade. Tall upper cupboards, under-counter lighting, granite counter tops and a tiled backsplash will all appeal to buyers at resale.

Risks with New Construction Homes

New homes carry their own risks, most notably the possibility of a delayed closing. Closings are routinely delayed weeks or months due to labour and supply shortages. In the case of a legal glitch regarding permits or infrastructure issues, the delays could extend a year or more. If you are buying a brand new home, be prepared for the possibility the home may not be completed on time.

Another risk with new homes is poor construction. While I've heard horror stories of crumbling foundations, the majority of complaints surround relatively minor workmanship issues. Choosing a quality builder who has received various awards and

fewer complaints is a good way to avoid major trouble. However, buyers also enjoy the protection of their province's new home warranty program. Typically, the program covers the entire home for the first year, and against major structural defects for up to 7 years.

Getting the Best Deal

The best deals in new construction can be found at two strategic points in the sale process. At the start of a brand new development, the builder will typically offer lower prices to encourage quick sales. Getting in early before the first price increase will mean getting the best price while giving yourself lots of time to save up the balance of the down payment. The other opportunity for a great deal is at the end of a development or phase. The builder will often offer a discount of \$10,000 or more on the last few homes, to sell them off quickly. Sometimes, these deals can be had on an inventory home that is already partially or completely built.

Additional Expenses with New Construction Homes

Probably the biggest advantage to a new construction home is the fact that it is brand new. You don't have to worry about replacing the furnace or roof for at least 15 years. However, new homes have their own set of expenses to factor in to your calculations. Your first priority will be window coverings such as curtains or blinds to provide privacy and enhance the décor. Most buyers also choose to upgrade the inferior quality light fixtures supplied by the builder. New homes tend to come in "builder beige" which provides a blank slate that will require your artistic touch. Painting your home yourself, one room at a time, allows you to gradually add colour for a fraction of the cost of professional painters.

Outside, you may want to replace the concrete slab walkway and patio with interlocking stone and add a few shrubs and flower gardens. If you or your neighbours have dogs or kids, you may want to split the cost of a privacy fence in the backyard. In all, you can expect to spend between three to twenty thousand dollars to complete the finishing touches. The end result however will be a very desirable home that will fetch top dollar at resale.

Ultimately, choosing between an older, resale home, and a newer, or pre-construction home is a personal decision. While there are risks and rewards with both options, the financial risks with an older home are probably greater. For those who want to be in a certain neighbourhood, an older home may be the right choice.

Those willing to live in new developments will enjoy a desirable home in brand new condition, decorated to their tastes, and can expect reliable appreciation in value.

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