

Buying a Home From a Builder? What to Know First

The do's and don'ts of purchasing a brand-new home

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For those frustrated with the lack of existing houses on the market, buying from a builder seems like a simple solution—until it isn't.

Brand-new homes have become more popular in neighborhoods where homeowners are reluctant to put their homes on the market and forgo their low-interest-rate mortgages.

New-home sales account for around 15% to 20% of all recent home sales and could reach 30% in some markets, compared with a historical average of 10%, said Lawrence Yun, chief economist at the National Association of Realtors.

The price gap between new homes and old ones has been shrinking and is the smallest in nearly 20 years, said Sheharyar Bokhari, Redfin senior economist. The median sales price of new houses sold in June 2023 was \$415,400, according to the Commerce Department. That compares with \$410,200 for existing homes, according to the NAR.

Builders, fueled by pandemic profits, are also offering incentives to help buyers reduce their mortgage rate or closing costs.

Hayley and Tyler Dupee recently bought a brand new four-bedroom, two-bath home in Ladson, S.C., for about \$312,000, motivated by the builder-included incentives such as a smart-home security system and window blinds.

“It became a no-brainer to us that a new home was going to be the best option for us within our budget,” she said. The couple gave up on buying an existing home after seeing bidding wars and the pricey renovations needed.

Buyers might be able to move into an existing home more quickly but could face expensive repairs and upgrades. New homes tend to be more expensive, and buyers usually need to be flexible with their move-in date because of potential completion delays. A home from a builder usually comes with some options for customization. On average, it takes more than eight months to build a house, according to the Commerce Department.

With a brand-new home, buyers might misunderstand their purchase contracts, cut corners in the wrong places and balk at delays, financial advisers and builders say.

Here are five things to consider when purchasing from a builder:

1. Which upgrades are worth it?

Consider what upgrades are difficult and pricey to complete once the house is finished, be it a gas line for an outdoor grill or wiring for outlets. These improvements cost less when you are building the home, said Angie Hicks, chief customer officer at home-services company Angi.

It is also important to think about your home's resale value when deciding where to spend or skimp, she said.

Invest in systems that keep your home running, such as plumbing and electrical, and in areas with a high return on investment, such as the kitchen, she said.

A simple way to save: Choosing a 36-inch upper kitchen cabinet instead of a 42-inch upper one might cost a buyer about \$600 less, depending on size of kitchen, said Donnie Evans, president of Altura Homes, a home builder in Dallas.

2. Choose which corners to cut

There are some areas where buyers can reduce costs without compromising quality, said Evans.

Evans has shaved about \$1,500 off the price of a roughly 2,000 square-foot home he built for customers by lowering the steepness of the roof from 8/12 pitch to 6/12. Roof pitch expresses roof steepness as a ratio of the vertical rise to the horizontal span, said Hicks at Angi. A roof that

rises 6 inches in the span of 12 inches would have a 6/12 pitch.

Selecting square corners for the home's drywall instead of rounded ones could save about \$200 in total for an average 2,000 square-foot house, said Evans.



Home buyers might save money by opting for square drywall corners instead of rounded ones.

KELLY HOODWIN (2)

3. Read the fine print

Home builders typically have some ability to substitute materials based on availability to meet deadlines.

Read the developer's contract carefully and note what choices can be overridden by the builder and in what circumstances, said Emily Irwin, senior director of advice at Wells Fargo. Irwin has clients who selected an interior paint color only to find out that the builder is exercising its right to use a different one.

Top-of-the-line stoves and refrigerators, often displayed in model homes, aren't necessarily included in a standard builder home, said Jason Katz, a financial adviser with UBS Financial Services in New York City. Ask your builder what, if any, appliances are included with your house.

4. Have extra money ready

Builders often have the right to increase prices based on material costs, said Charlene Wehring, a financial adviser in Bellville, Texas. If costs go up and buyers can no longer afford the home, they will probably lose their deposit after backing out of the deal, she said.

Read the contract carefully and factor this possibility into your budget.

Bokhari at Redfin advises setting aside roughly 10% to 15% for contingency budgeting, depending on the home's location, type and size.

5. Don't expect perfection

Buyers sometimes think they don't need a home inspection before closing because their new home usually comes with a warranty, said Mark Barnes, a Realtor in Charleston, S.C.

A warranty often covers items such as materials, workmanship, system and structural defects.

Barnes recommends buyers get a pre-drywall inspection since a home's problems might not be discovered until after the warranty period ends.

Hicks at Angi said to get an inspection at three points during the home-building process: before the foundation is poured; before drywall is installed, when it is easier to fix electrical problems; and at the end, to ensure everything is built to code.

Hicks recommends paying an independent inspector to check out the house. Most buyers spend between \$280 and \$400 for an inspection. It is worth it, she said.

Some of the most common issues that inspectors find are humidity in the home, cracks in drywall or incorrectly installed siding.

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