



# BRICK UNDERGROUND

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## **A timeline for buying in a new development: From preparing your financing to closing**



*An oversupply in new development means buyers have lots of choice and plenty of bargaining power.*

If you're considering buying in a new development now, you probably know that with the recent shift to a buyers' market, your timing is very good.

"The buyer has full power," says Patrick Mills, real estate broker with CORE. That's because there's much more that can be negotiated these days, including many of the costs associated with closing. "It reminds me of 2011 where we were coming out of the recession and people were super hesitant. Anyone who purchased anything in 2011 saw a 50-percent return within two or three years."

Currently, condos in Manhattan new developments take 143 days to go to contract. It can then be another six months or so to close, according to Douglas Elliman's Manhattan sales

market report for the fourth quarter, which says it takes an average 10.7 months for a sponsor to sell a brand new unit.

The oversupply in the market means buyers have a lot more options when it comes to new developments, including the ability to see what you are getting. In prior years, it was the norm to go to contract based on a floor plan, some material samples, and a rendering, but that's not the case now. Andrew Gerringer leads new development at The Marketing Directors and says the timeline for buying has slowed as "purchasers not only want to make sure the project gets completed but, more than ever they want to be able to see, touch and feel what they are buying."

With that in mind, here's Brick Underground's timeline for buying in a new development.

### **Week 1-3**

Figure how much you can spend: It's an obvious one but you'll need to get a sense of what you can afford by setting up your financials so you are ready to move forward with any purchase.

"If you're paying with cash, where's that cash coming from? If you're financing, how much are you financing and you can start shopping around for a mortgage," says Mills.

Talk to a broker: A broker will help you navigate the process and steer you towards finding the right unit. In this market, you can look a bit beyond your budget. "There's a lot of developers out there who are willing to make deals," says Mills.

Start your search: Location, amenities and building type will be your key search criteria. Visit the neighborhood you're interested in and consider the kind of perks you want in your building. What are the amenities you need? Also, consider what amenities you don't need that you'll be paying for even if you don't use them. Work out whether you're interested in a smaller boutique building or one with two hundred plus apartments.

### **Week 4 -9**

Refine your search: Do you need an additional half bath or double sinks in the master? Do you need a washer dryer or a great view?

"These things matter," says Mills and "having a list of things you need and things you want really helps the search and what's great right now is there's lots of inventory to choose from."

Get a real estate attorney: Don't wait until you have a contract to figure out which attorney you plan to work with. You'll want to hire someone you feel confident can prepare and negotiate the sale.

### **Week 10-15 (or later)**

Once you target a particular property, your broker will begin talks with the building's director of sales. For a new development, the New York State attorney general has to sign off on the details of the building, everything from the unit type to the landscaping. The building won't be given condominium status (as opposed to a rental building) until at least 15 percent of the units of the building have gone into contract.

"If the developer is motivated, say they are two sales away from the sales threshold, they may be willing to make a deal," says Mills. Offers might go back and forth for a few days. Mills says "some developers are absolutely willing to take hit off the purchase price. And if they are not going to do that they are likely, in this market, to cover the state and city transfer taxes, which is a pretty big chunk of change, about 1.825 percent of the purchase price."

At this point your broker will be taking a good look at the offering plan, which "serves as your charter about what you're buying and how it will be run," says Jeffrey Rendin, a real estate lawyer and partner at the firm Wagner Berkow, (FYI, a Brick Underground sponsor). If the final product doesn't match the offering plan, buyers can complain or sue.

Revisit your financing: You'll want to have your loan approval well ahead of the anticipated closing date. Mark Maimon, vice president with Freedom Mortgage, says that means "ironing out details of employment verification, income calculations and any transfers between accounts so that when you get your 30-day notice, everything is ready."

### **Week 16 (or later)**

The offer: Once your offer is accepted you'll need to speak to your real estate attorney. At this point, things will move pretty fast. New development sales offices in New York City run efficiently.

Mills says "the only one who can slow things down is the potential buyer who could use it as a strategy to make the developer sweat a little or more likely in this market, buyers are just not terribly motivated. It takes a few days to get to that point, sometimes 24 hours, sometimes two or three days from the first offer to get to an accepted offer with all terms agreed upon."

### **Week 17 (or later)**

Signing the contract: In a strong seller's market, you have five days to get that contract signed. It's a much less aggressive market these days. Mills says, "Three years ago an offer could be accepted, but if we didn't get that contract back and signed within five business days they'd move onto the next. Today there's a little more wiggle room."

The deal sheet: Within 24 hours of the accepted offer, a deal sheet is generated, which will have all the information on the sale, from the price to the concessions. This goes to the buyer's attorney, the sponsor's attorney, and the brokers.

The contract: Within another 24 hours, the contract will be issued. From that moment, the buyer has five business days to review, look over all the special risks, and negotiate. In today's buyer's market, five days could stretch to 10. "Time kills most deals, as any broker knows," says Mills. He adds, "If developers don't have any other offers coming in they are not going to chase it, but a good director of sales will want to stay on as tight a schedule as possible."

### **Week 18 (or later, depending on when the apartment is ready)**

The deposit payment: Typically 10 percent of the purchase price is put down with the signed contract, although it can be higher. Maimon says, "Some higher-end new developments are requiring as much as 20 percent up front before the closing." With the deposit paid, the speed of the process will depend on when the new development is ready.

Developers often have a preferred lender who has pre-approved the building and may be able to offer financing to a buyer before the building gets to the industry standard of 51 percent of the units in contract. This is a safety measure to prevent the building from getting into financial difficulties. Maimon says "if the developer hasn't sold the units and they stop paying their common charges, the condo would have a hard time meeting its financial obligations to run the building."

Something else to consider is a financing contingency. Most developers are not agreeing to a financing contingency, which means if you're in that first 51 percent of buyers but you can't get a mortgage, because the bank won't lend until more than a certain amount of units are sold, you might lose your deposit. This is a sticking point for new development says Maimon.

"The problem is the buyers have no control over how many units the developer sells and how quickly they sell them, but if you can't finance the sale, you won't get your escrow deposit back. And if you're buying a \$2 million condo, that's at least 200,000, which is not a small amount of money," he says.

Locking in the mortgage rate: It is possible to lock in a rate six months out but that may come at a premium. Maimon says "in some cases when rates are stable or declining, we'll recommend to our clients that we wait until the developer sends out the 30 day closing announcement, and at that point, we'd think about locking in the rate."

The close: When the unit is ready, the sponsor will give a notice to the bank, if you're financing, and they will come and do an appraisal. When the bank gives the thumbs up you'll be able to close.

If it's a property that's already available, it's a standard 90 days from the contract signing. Paying in cash speeds up the process says Mills. "All-cash buyers can close in a week. You're not dealing with a board, there's no purchase application and if you're not dealing with a

bank, there's nothing to hold you back. You can go from signing the contract to closing within a day," he says.