

TOP SECRET



BuildChi

Negotiating New

MY SECRET GUIDE TO GET A DEAL



DISCLAIMER

This is the equivalent of my personal “Little Black Book on Negotiating” specifically for new construction. It serves as a tool for all of my clients, Rebate or Full Service, to get the best results when purchasing a new construction home and is what I would consider to be an essential read, as much of what is discussed relies on you, the buyer, to work successfully. There is no guarantee that the strategies here will result in getting what you want, in truth I find most clients are far more demanding of builder’s than they really should be, at least while we are going through a market with an abundance of potential buyers. Please follow the guide and reread if you feel you are fuzzy on what is expected from you.



Negotiating New

The Basics:

When considering buying a new construction home, it's crucial to understand that negotiating the sales price with builders is often challenging. Unlike resale homes, where negotiation is more common, builders are generally less inclined to lower prices for homes being built from scratch. The primary reason for this is to maintain the value of future sales in the same community.

In high-demand markets, such as those experienced in recent years, negotiating on price is even more difficult. Builders have multiple prospective buyers and may not be willing to entertain price negotiations. It's essential to approach negotiations with respect and understanding of the builder's perspective.

Remember, builders see buyers as numbers with potential profits, not as individual clients. Being respectful and understanding of the market dynamics can improve your chances of success in negotiations. Focus on other aspects of the build, such as upgrades or closing costs, where there may be more flexibility.

Negotiating New

The Basics:

In high-demand areas, it's important to understand the importance of negotiations. With the strategic price set, preferences that have each significance, the effect on the limited supply of lots is significant. Your ability to negotiate effectively depends on the level of demand for lots in the area. Builders frequently adjust lot premiums, so there may be room for negotiation, especially for less desirable lots. Builders who have been in the market for a while know their expectations and are more likely to negotiate for the best lots on for future lots to be released. The downward price points are the key sources of profit for builders. It's important to experience the high demand, but not to be perceived as a quick negotiator. Builders are likely to work for less in negotiations if they have a lot of other interested buyers for prime lots.

In such scenarios, your goal should be to make a favorable impression on the builder and their staff. This can help you secure a contract before prices increase further. On average, I've observed monthly price increases of 2-5k on base prices of homes and lot premiums in high-demand areas.

Conversely, in communities with lower demand or in brand-new developments, there may be more flexibility in negotiations. However, this flexibility is still limited by the level of demand the builder is experiencing, except in the case of Spec Homes, which are already built or nearly completed.

Negotiating New

The Basics:

Now you may be saying great information Josh, but what can or can't I negotiate on then? Keep in mind this does still only apply to lower demand communities regardless, but...

Do Negotiate

- **Lot Premiums:**

- Lot premiums can be the low-hanging fruit in terms of negotiations. Unlike the base price, lot premiums don't have a significant effect on future sales. Moreover, they don't add much to the builder's labor costs, making them ideal for negotiation.
- Builders frequently adjust lot premiums, so there may be room for negotiation due to this alone but especially for less desirable lots or those that have been on the market for a while.
- However, don't expect much success negotiating for the best lots or for unreleased future lots expecting a lower price, as these are key sources of profit for builders now. It's also important to note that not all lots are created equal, odd shaped and less desirable lots are best.

Negotiating New

The Basics:

Do Negotiate

- **Design Elements:**

- Design elements, including appliances, can also be negotiated as they don't significantly increase labor costs for the builder. For example, opting for higher-quality flooring or a better kitchen countertop doesn't require more installation time than lower-quality options.
- While the cost of design elements may increase over time, builders typically don't raise prices on these anywhere near as much as they do on lot premiums which have gotten absolutely crazy in recent years.
- This makes design elements a viable option for negotiations, but still dramatically less so as compared to lot premiums since their prices have been inflated so much.
- Please note, It's important to distinguish design elements from structural elements here to, as structural elements do have additional cost involved beyond the resources consumed.

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The Basics:

Do Negotiate

- **Closing Cost:**

- Closing costs are the fees and expenses you'll need to pay on top of the home's purchase price when you finalize your mortgage. Builders often provide a closing cost credit incentive if you use their preferred lender. This credit can help offset some of your expenses, but it's important to note that it might not cover the full amount.
- When negotiating closing costs, consider the builder's structure. If they have their own title company and mortgage loan originators, much of the closing cost essentially stays within the same parent company, making it a more attractive option for them.
- In such cases, they may be more willing to negotiate on closing costs. However, if the builder doesn't have its own title company, the incentive to negotiate on closing costs may be less appealing to them compared to other negotiation points like lot premiums or design elements.

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The Basics:

Do Not Negotiate

- **Base Price:**

- Negotiating on the base price of your home is generally not feasible, especially for homes being built from scratch. Builders are unlikely to lower the base price due to its impact on future pricing for other homes.

- **Structural Elements:**

- Unlike design elements, which have more flexibility in pricing, structural elements have fixed costs to the builder and often involve additional labor costs. This makes negotiating on structural elements less effective, as builders are less likely to concede on these aspects.

- **Elevations:**

- While elevations may seem more related to design, they are actually more structural in nature. Because of this, negotiating on elevations is not typically a strong option. They can add to labor costs and may require different materials, making them less likely to be negotiable compared to other aspects.



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Negotiations Holy Grail:

Spec homes, or homes that are already built or nearly completed by builders without a specific buyer, can be the ultimate negotiation opportunity in new construction. While it may not be the ideal choice for everyone, reconsidering the benefits of a spec home can be financially wise.

Even with a semi-custom home, compromises are often necessary. By choosing a spec home, you can enjoy the benefits of a new home, including warranties and modern features, while also gaining negotiation power and a quicker buying process compared to building from scratch.

While it's important to acknowledge the compromises involved in choosing a spec home, especially if it's not your forever home, the potential savings and faster move-in times can make it a compelling option.

After all, why build a home like it's your forever home if you're likely to move within a few years? Choosing a spec home can help you save money, avoid wait times, and start building equity sooner.



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Negotiations Holy Grail:

Your negotiation power with spec homes largely revolves around timing. The longer a spec home has been on the market, the more likely the builder is to meet your demands. This is because builders start incurring a tax burden on the home once it's cleared for occupancy.

Timing is crucial here. You'll likely get the best results with spec homes completing at the end of the year. During this time, builders often offer more promotions due to lower demand during the holiday season. There are also internal incentives for builders to close out the year strong, which can work in your favor.

This trend can extend into the early months of the new year, but historically, the best deals are found from October through December. With multiple holidays, vacation time, and family trips, many buyers are on the sidelines, creating an opportunity for you to secure a great deal.

Spec Homes also offer the ability to negotiate on pricing far more effectively, however even then, I find closing cost to be your best opportunity. Although less important with completed homes, dropping prices directly is a difficult decision for builders compared to closing cost.



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Negotiations Holy Grail:

Lastly, another option to consider is asking the builder to buy down your interest rate. While many spec homes already come with promotional interest rates, particularly from large national builders, it doesn't hurt to inquire about further rate reductions in the event they don't budge on pricing or already maxed out the closing cost credit.



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Negotiating With Builders 101:

To negotiate effectively with builders, especially for spec homes or in communities with lower demand, it's crucial to avoid showing too much eagerness or emotion. Unlike buying a resale home where you might tour with a buyer's agent to maintain neutrality, touring a model home involves interacting with the seller's agent, who is skilled at reading and using buyer's emotions to their advantage.

Buyers often unintentionally reveal their excitement and eagerness, which can weaken their negotiating position. It's important to remain neutral and not give the impression that you're ready to buy without question. Showing too much enthusiasm can signal to the builder that you're willing to pay the asking price or forego negotiations altogether.

To strengthen your negotiating position, demonstrate that you have other options available, even if it's not entirely true. This mindset, coupled with my support as your agent, can convey to the builder that you're a serious buyer who won't settle for unfavorable terms.

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Negotiating With Builders 101:

Additionally, investing time in building a relationship with the sales rep can work in your favor. By attending multiple appointments and showing genuine interest, you can make the rep more inclined to advocate for your needs. When they go to their management, they will be doing so on your behalf instead of with reluctance.

This approach can lead to concessions or accommodations that might not have been offered otherwise. However, it's essential to respect their time and not overextend the relationship.



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Gambits – High Risk High Reward:

In negotiations, the potential for high rewards often comes with high risks. While most of the strategies discussed so far have involved minimal risk, there are situations where the stakes are much higher. These are what we call gambits, where the outcome could lead to either significant gains or with new construction, the loss of your entire earnest deposit.

These strategies should be approached with extreme caution and only considered if not using them would result in a failed sale anyways. This is because many builder contracts include clauses that allow them to cancel the contract and retain your earnest money if you indicate, even verbally, that you can't proceed with the purchase. While builders may not immediately cancel contracts based on verbal statements, the risk is still present.

When using a gambit to negotiate, you can expect one of two outcomes: either the builder will go above and beyond to make the sale work, or they will flat-out deny any flexibility. In the worst-case scenario, they may proceed with the cancellation, keep your earnest money, and work on finding a new buyer as soon as possible.



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Gambits – High Risk High Reward:

For builders, it really comes down to which option will make them the highest profit. If they feel they will make more by keeping your money and listing the home as a Spec Home, then they will likely cancel your contract.

However, if they feel the cost of finding a new buyer will greatly exceed what you are requesting, then you are likely to win the negotiation. Regardless, this is a last resort strategy because you are literally putting your earnest money on the line betting that you will win.

Because there is no one-size-fits-all approach to using a gambit, here are two examples from actual experiences with previous clients, each resulting in entirely different outcomes. These examples illustrate that negotiations after contracting can be either flat-out amazing or a complete disaster.



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Gambits – High Risk High Reward:

Scenario 1

In this scenario, a client who was already well under contract, having sold their previous home and waiting for the new build to finish, experienced an unexpected health crisis. As a result, my client was no longer in a position to cover the closing costs of their purchase and was prepared to cancel, even going as far as telling the builder directly before discussing it with me (which is not advised).

After pleading with the builder myself to please provide them their earnest money back due to extenuating circumstances, the builder instead came back to us agreeing to cover their entire closing costs. In the builder's words, they could not afford not to proceed with the sale. With the property closing in December and knowing the market was going to be slow for the next 4-5 months, the builder was willing to bite the bullet on the closing costs as they felt it was more expensive to find another buyer.

Although in this scenario we did not go to the builder with the intention of negotiating, it ultimately resulted in a negotiation that left my clients with a home instead of losing tens of thousands of dollars in earnest money already paid.



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Gambits – High Risk High Reward:

Scenario 2

In scenario two, a client who was already disappointed with the results of their build due to the limited lot options available and was considering canceling their contract, losing their entire earnest money deposit. Fortunately, in this scenario, they came to me first. I provided some projected figures showing the potential if they were to rent the property out or sell it quickly afterward. Although I believed my projections were sound and historically correct, due to the market outlook at that time, they felt it was still better to cancel.

In an effort to save the deal and prevent my clients from losing a sizable earnest deposit, I went to the builder on their behalf and presented the situation. Both parties were fully aware that the builder could cancel at any point. Instead of immediately canceling, the threat of losing the deal convinced the builder to agree to cover the entirety of my clients' closing costs and was looking like they would possibly pay down my clients rate but sadly my clients still proceeded with cancelling.

It still goes to show you though what can happen when a builder is pushed so late in a transaction where demands like these really make the builder weigh the options for a buyer willing to risk it all.



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Closing Words:

Let me be abundantly clear, this handout was not meant to replace an agent in negotiating your new construction sale. Although yes you can technically do this yourself, in practice there is far more nuance to it all that can only really be navigated by someone who knows what is going on and can use past experience to create leverage.

What is important to understand though is what you can and can't negotiate, and what impact you have directly in those negotiations. Not understanding can result in you indirectly influencing the results of my negotiating on your behalf and has stunted that ability on many occasions in the past, making this such an important topic worth it's own handout.