

# Failures should not panic pre-sales



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## Benefits for buyers who get in early on new homes almost always outweigh the risks

Often, early can mean very early — before ground is even broken and when the only things to show for your new home are a set of plans and some tile and carpet samples.

But it can pay to buy early. An educated buyer, entering into a contract to pre-buy, is acquiring value. That value, in a market as brisk as the one we have been experiencing in B.C. over the last couple of years, can translate into substantial financial paper gains or, in reality, real savings.

The price of homes has been appreciating so quickly that buyers often save themselves tens of thousands of dollars between the time they enter into the pre-sales contract and the time they close on their purchase.

Buying early also means a buyer can in some ways shape the product or customize a home. For example, a buyer can select certain finishes, including paint colours, cabinetry or flooring. When buying a standing home that is completed, the builder will have already chosen finishes and extra costs are usually

incurred in making small changes.

However, there are risks associated with pre-sales. In a heated market, just as new home prices climb steadily, construction costs climb, too. An inexperienced or under-capitalized developer can run into problems with cost overruns.

As a condition of securing financing for the construction of a project, the developer will often have to demonstrate demand to the lender by pre-selling a certain number of homes in a project. There's no better way to do this than to be able to point to willing buyers who have actually entered into a contract.

Pre-selling has taken some risk out of the business for developers and construction lenders.

However, if the lenders behind projects are not experienced in construction lending, they can also miscalculate finances and costs as the project progresses, and end up pulling the financing on the developer too far into the project. That can leave a pre-construction

buyer with a contract that has a cancellation clause with little more than the initial deposit refunded.

This has happened in the past and it may happen in the future, but it isn't common.

Most developers who have a track record in the marketplace have enough capital to ensure that they can allow a project to have cost overruns. Most construction lenders are also experienced enough that they can ensure adequate project financing is in place prior to the start of construction.

The risks associated with pre-sales aren't always apparent to buyers after they read the mandatory disclosure statement. But it is important to read the document from cover to cover, as well as the purchase contract.

These documents spell out details about when a developer can elect to abandon the project, how long it can delay the start of construction and what happens when it delays the completion of construction.

Recent changes to real estate law afford buyers the time to review the disclosure statement and purchase contract even after signing the contract. Buyers have up to seven days to rescind their purchase contract after entering into it.

It is also important to find out about a developer's experience and background. If the sales agent isn't able to

provide you with a resume of the developer's experience, contact the developer directly. Find out what projects it built previously, how long it took to complete them and whether or not it encountered any problems.

Most reputable developers belong to one of the development industry's professional associations, such as the Urban Development Institute or the Canadian Homebuilders Association. Inquire as to whether or not the developer with whom you are entering into a pre-sale agreement is a current member of one of these two organizations. If it is, at least you can be sure it has been educated by these associations about the risks on its side.

Finally, ask questions any time you feel unsure or uncomfortable.

An aware and informed buyer is a buyer prepared for the possible risks and happy to realize any rewards that might come from buying at the pre-construction phase.

In short, pre-sales are here to stay because buyers appreciate the benefits of buying early and developers mitigate their risks by knowing who their eventual buyers will be when their homes are ready for occupancy.

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Buying a new home prior to the completion of construction has been a common practice for decades in Vancouver's housing market. The recent attention given one new single-family housing project in Coquitlam that failed to complete — leaving a number of pre-construction buyers in the lurch — shouldn't cause panic about what are commonly known as "pre-sales".

There are risks associated with entering into a purchase contract for a new home before that home is completed. But the benefits for a buyer who buys early almost always far outweigh the risks.