

# CITYREALTY

## The pros and cons of buying in a new construction building



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From pristine interiors and state-of-the-art appliances to eco-friendly environments and top-level services, there are many reasons to purchase in a newly constructed building. By and large, newly constructed buildings are cleaner, greener, and more convenient as they have been built to serve the needs of contemporary New Yorkers. Still, buying in a newly constructed building can present unexpected challenges. This article examines six potential risks and challenges associated with buying in a newly constructed building.

### Financing

While one might assume that lenders would prefer newly constructed buildings to aging buildings, it is usually more difficult to secure financing for a purchase in a new building, and the reason may come as a surprise. Lenders typically only agree to lend to buyers after a certain percentage of a building's units have already gone into contract. Depending on the building, the percentage will differ but is usually between 15 to 50 percent. Fortunately, in most developments, "preferred lenders" are brought on board to bridge the gap, but this also isn't ideal. It ultimately means that buyers have fewer choices when shopping for a mortgage and, as a result, may end up with a much higher mortgage rate than they would if they could freely shop for financing.

Another common catch-22 when attempting to finance a unit in a newly constructed building is that most lenders will only issue a mortgage after the building has obtained a Certificate of Occupancy or Temporary Certificate of Occupancy. In order to obtain even a Temporary Certificate of Occupancy, however, the building must be close to completion.

### Closing costs

Closing costs on condos are nearly always much higher than closing costs on coops because coop buyers don't pay a mortgage recording tax. However, closing costs on newly constructed condos are also higher than closing costs on resale condos. In most cases, this is due to an expectation that the buyer rather than the seller (in this case, the developer or sponsor) is expected to cover all or most of the closing costs. Notably, closing costs include attorney fees, and for a variety of reasons, attorney fees are also nearly always higher when closing on a new condo versus a resale coop or condo.

### Move-in dates

As many New Yorkers discovered during the pandemic, anticipated move-in dates on newly constructed buildings can be postponed for months and, in extreme cases, much longer. From permits and inspections to labor shortages and supply-chain troubles, a lot of things can delay the completion of a residential building project. For buyers, these delays not only add to the anxiety of moving but can prove costly. If, for example, a buyer has purchased a new condo and is selling an existing unit to finance the purchase, a long delay may result in both deals falling through. More often than not, however, move-in delays result in buyers being forced to rent while they wait for their newly constructed condo to be completed. Given the cost of moving, storage, and renting in New York City, move-in delays can add tens of thousands of dollars to one's closing.

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## Community and culture

Many New York City buildings have a unique community or culture that has developed over many decades of habitation. It can be difficult to move into a building with an established community or culture, but when it comes to New York City housing, the timeless adage "better the devil you know than the devil you don't" also seems to hold true. When you move into an existing building, it is usually possible to gain at least some sense of what to expect once you arrive. For example, if you're looking for a child-friendly building or a building that welcomes musicians who practice at home, you'll likely be able to assess the tolerance for crying children or trombone playing prior to moving in. In newly constructed buildings, it is virtually impossible to anticipate whether the community and culture of the building will ultimately be a good fit for you and your family over time.

## Long-term return on investment

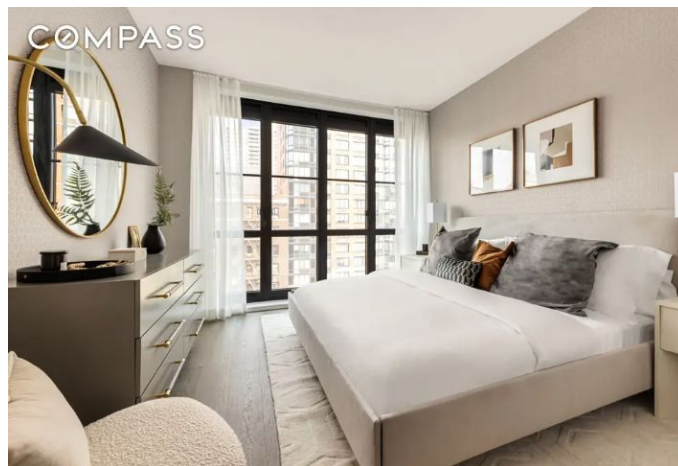
Buying in New York City is nearly always a strategic long-term investment. Still, buying in a newly constructed building does pose a slightly higher risk. In addition to the possibility that the newly constructed building may suffer from chronic problems (e.g., ongoing leaks), there is also a risk that the building may end up being largely unoccupied or end up being home to more renters than owner-occupants. While unoccupied units and units inhabited by renters don't necessarily impact the value of one's property, when the situation is extreme (i.e., the building is mostly unoccupied or home to a third or more renters), the value of one's property may be negatively impacted. Here, it is also important to bear in mind that the Federal Housing Authority (FHA) even restricts mortgages on condo communities that aren't at least 35 percent owner-occupied (until 2019, the FHA required at least 50 percent of units to be occupied by owners).

The bottom line is that buying a newly constructed unit has many advantages, but it also tends to come with increased uncertainty and higher closing costs. If you know and accept the risks and higher price tag, however, it is nearly always a great investment.

96+Broadway, #11G

\$1,525,000

Broadway Corridor | Condominium | 1 Bedroom, 1.5 Baths | 773 ft<sup>2</sup>



**From the Listing:** Welcome to Residence 11G, a spacious 773-square-foot 1-bedroom, 1.5-bath home with an inviting foyer, west-facing floor-to-ceiling casement windows, 9'1" ceilings, and beautiful 7.5" wide European oak flooring. The top-of-the-line kitchen with counter seating for four opens onto the living/dining room and features Italian solid white oak cabinets with exposed dovetail joinery, elegant inlay detail, and under-cabinet lighting. The bedroom has two large closets and a luxurious en-suite marble bath clad in Bianco Dolomiti marble. This impressive home also includes an Asko washer/dryer and Nest-controlled heat pump HVAC System with linear diffusers. **See floor plan and full details here.**

<https://www.cityrealty.com/nyc/market-insight/features/future-nyc/the-pros-cons-buying-new-construction-building/59445>