

Charlotte

APRIL / MAY 2017

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Contributing Editor

BUILDING A
BETTER HOME



MARY
LUDEMANN



BE IN THE KNOW: Construction to Perm Mortgage

It is an unfortunate scenario: Homeowners are prequalified for the entire amount of their custom home build estimate. They get tremendously excited and move forward with the build. Then suddenly, they get hit with shocking news – more out-of-pocket, cash expenses are needed and they don't have the cash handy. The deal could fall through.

How did they so drastically miscalculate their expenses?

They made the common mistake of assuming that a custom build loan works like a traditional mortgage loan. TD Bank loan officer and construction lending specialist Donna Schermerhorn explains, "Banks can't typically lend you more than 80 percent of the home's value for custom builds. This means that you'll have to pay the remaining 20 percent in cash."

In addition, custom appraisals present their own unique challenges. "Loan amounts are based on the most recent sales of comparable homes, or 'comps' in the area," says Donna. "However, comps are only based on two criteria: location and square footage. This means there can be a gap between comps and your actual home value – a gap you may need to fill with cash."

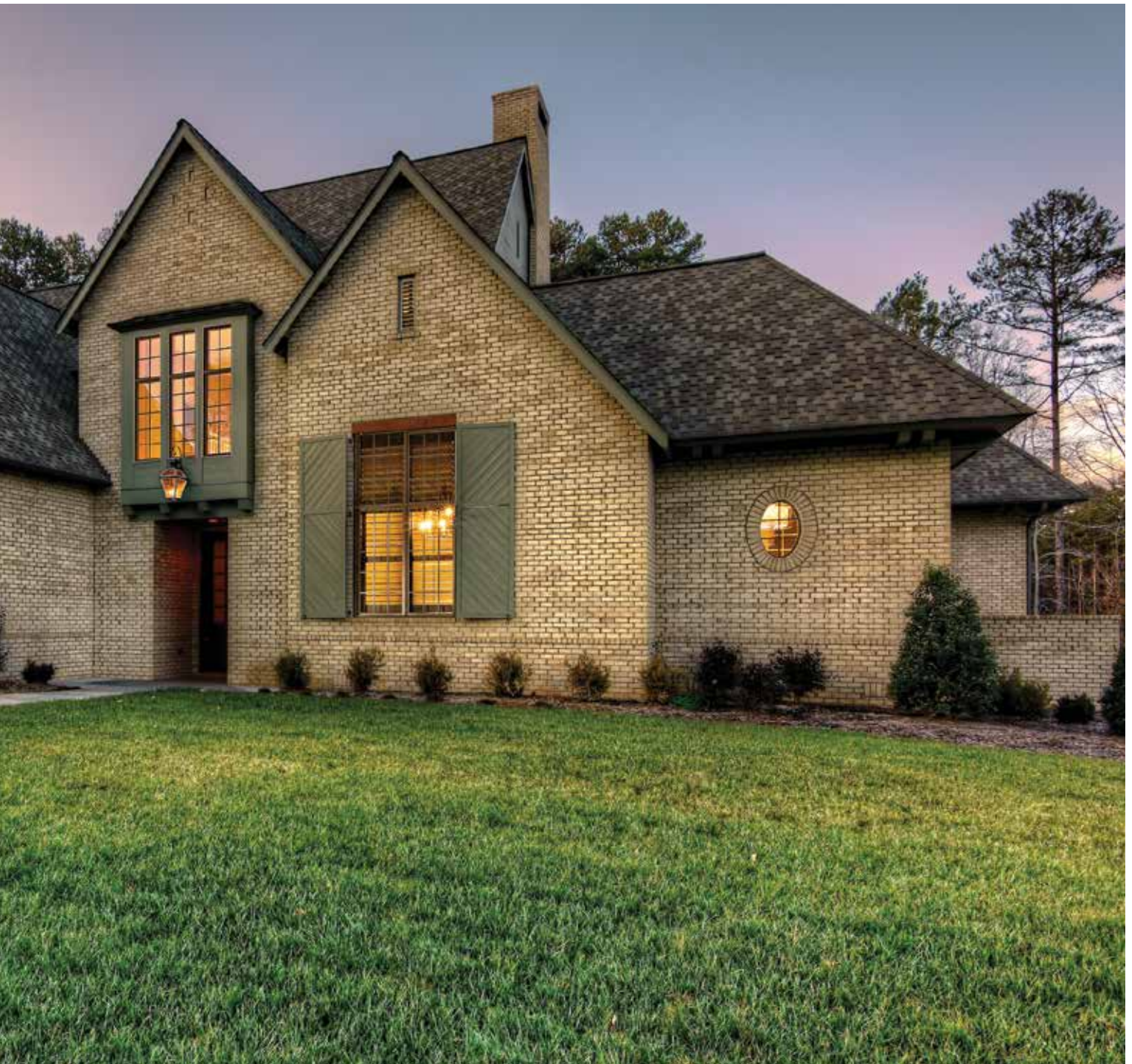
Let's say the 4,500-square-foot, \$1 Million custom home you are building has heated floors, a high-end appliance package and extensive custom cabinetry, making it worth every penny you're paying. If the next-door-neighbor's 4,500-square-foot home sold for \$700,000 last month there's going to be a gap in your appraisal. It doesn't matter that his home is 15 years old, needs a new roof and a kitchen renovation, and has none of the custom upgrades your home now has.

What's more, closures on new custom builds are not counted as sales, and the homes generally



won't appear in the MLS. So, if your neighbor across the street built a 4,500-square-foot custom home for \$1.5 million last month, that comp won't be taken into consideration by the bank. What's more, custom homes are rarely resold quickly. This causes a considerable lag between custom home builds and accurate custom home appraisals.

The good news: your dream of building a custom home is far from doomed. Knowledge is power! The more homework you do, the more easily you



can avoid problems. “First, if you have already purchased the land where your home is being built, you can use that amount toward your down payment,” advises Donna. “If you haven’t yet purchased land, research comps in the area you’re considering. If there are no custom home comps for a home of the size you plan to build, keep looking. Or, if you are still very committed to building there, find the closest comp, estimate the amount of cash you’ll need, and plan accordingly.”

Fortunately, the custom home market is expanding quickly in Charlotte. The chances of finding a great area to build in,

that has accurate custom home comps nearby, are high and increasing all the time – placing that custom dream home ever closer within your reach.◆

Mary Ludemann is the founder of New Old and has been designing and building homes for over 12 years. To discuss your next dream build or renovation project, contact New Old at 704-975-5196. For more information, visit www.newold.com or email them at building@newold.com.