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Those 'extras' certainly add up

The market for new homes and condominiums is very active, and buyers by the thousands are streaming through builders' site offices. With rare exceptions, here's what they don't tell you in the sales showrooms.

Virtually every agreement of purchase and sale in use by Toronto-area builders today contains a paragraph called "adjustments."

It itemizes the types of "extras" that each purchaser is required to pay. These do not represent upgrades like marble tile or pot lights, but compulsory add-ons to the base purchase price.

Of course, builders have the right to recover their costs. If they didn't, the market would grind to a painful slowdown - as it did in the early '90s.

But the problem is that when purchasers put pen to paper, in almost every instance in my 28 years' experience, there is no disclosure, no explanation and often no reference to potentially thousands of dollars in add-ons which are not included in the offer price.

Here are some of the common charges not usually itemized in the sales office:

Water meter and installation: either the total charge for single-family homes or a proportion of the total charge in a condominium high-rise - around \$250 to \$350.

Hydro meter and installation: as above, around \$450.

The cost of any other utility meters, such as natural gas.

Law Society transaction levy: the purchaser gets to pay the vendor's charge of \$50.

Provincial sales tax on the value of the included appliances.

Sewer impost (compulsory contribution) charge: a few hundred dollars.

The builder's premium for the Ontario New Home Warranty Program (ONHWP): a variable amount around \$700 to \$900 and up, depending on price.

A fee to the lawyer for the construction lender for preparation of a partial discharge of the builder's mortgage on the lot or unit being purchased: \$125 and up.

The bonding cost to protect up to \$20,000 in the purchaser's deposits.

The cost of excess deposit insurance to protect deposits in excess of \$20,000;

Two months worth of common expenses for a reserve fund start-up for condominiums only.

And, the latest, and seemingly petty, extra: carbon monoxide detectors where the home has a gas appliance or fireplace: about \$25 to \$40.

For non-condominium houses only, add in:

Tree planting and landscaping: around \$300.

Driveway paving: \$600.

Fencing: \$400

Grading damage deposit (theoretically refundable, eventually): \$250 or more.

GST and often PST are added to all of these extras.

In addition, there is a potential time bomb in most builder offers - homes and condos alike. Currently, municipalities like Toronto charge builders as much as \$15,000 in fees - called development charges or levies - to pay for services and infrastructure like schools, parks, roads, fire and police services, and similar urban amenities which we all expect.

Builder offers contain a clause requiring the purchaser to pay any increase in the development charges or education levies which are imposed by municipal governments after the offer is signed. This could potentially run each purchaser into the thousands of dollars.

Here's how to cope with extras:

Ask the salesperson to put in writing the cost of all extras. Don't accept the explanation "Your lawyer will explain it to you." Lawyers don't know the cost of sewer impost charges, fences or hydro meters.

Insist that the salesperson write into your offer a cap or maximum on the adjustments, right there in the sales office. Most builders are willing to cap the extras or adjustments at \$1,500 to \$2,500 - if you ask.

Remember that the extras usually don't count as part of the purchase price when you are arranging financing of, say, 75 per cent or more. The financing is usually based on the price without extras.

Earlier this week, I spoke to Stephen Karr, a prominent lawyer for many Toronto builders and developers.

Karr is a partner at Harris Sheaffer, a firm which specializes in condominium developments. I asked him why adjustments or add-ons are not usually discussed in sales offices.

From the builder's perspective, he explained that some are not verifiable in advance, and some - like development charge increases - may never happen at all. He said that this

practice is the industry standard so that purchasers can compare base prices per square foot from one development to another - without the add-ons. It is difficult to compare prices if one builder includes all extras and another does not.

Karr recommended that purchasers obtain legal advice when signing offers. In new condominium deals, he added, there is a 10-day cooling off period - the only consumer contract that has this type of lengthy protection.

Finally, Karr mentioned that the types of extras referred to above are pretty well standard industry-wide, and should not differ widely from one builder to the next.

The message to consumers is clearly "buyer beware." Always ask about what's included, and what isn't. That way there won't be any nasty surprises on closing day.

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