

Overview - Buying Land And Building A Home

Buying land and building a home may seem that it would be fairly simple and straightforward, but the process is, in fact, far more complex than you may think.

Buying Land And The Home From A Builder

Let's work under the assumption that you plan on purchasing land and then building a home. You also have the option of finding a builder to buy the land, build the home, and then sell it to you. Some builders own several lots and will build a new home on one of their lots for you. This is a type of turnkey package that many cottage buyers consider when having a new cottage built. In this case, a traditional mortgage is all that's necessary to purchase the home in most cases.

Buying Land and Building Your Home

Purchasing the lot first and then hiring a builder will be a more complex, but will provide you with more options and customization opportunities.

Let's first consider the land itself. Will you be purchasing the land outright, or will you be taking out a loan?

If you have the budget to purchase the land outright, then the process becomes a little less complicated. You simply find the piece of land that you want, make sure that you can build your cottage on the property, purchase it, then you may begin your search for a general contractor.

If you plan on taking out a loan to purchase the land, obtaining the financing that you require may not be a walk in the park. Be prepared for a higher down payment requirement, and also a higher interest rate and higher fees. These types of loans typically have shorter-term periods as well.

Loans

There are essentially three types of loans that are generally used to purchase land and build homes: a land or lot loan, a construction loan or a construction-to-permanent loan.

Land or Lot Loan

If you have fallen in love with a piece of land but aren't quite ready to build yet, a land loan may be a good option. This type of loan will allow you to purchase the vacant land and then search for a builder at a later date.

Once you are ready to begin building, you can then consider a construction loan or paying for the construction outright.

A land or lot loan is ideal for borrowers that want to:

- Secure a piece of property before the construction phase begins
- Take their time planning and designing their new home
- Take the time to settle into a new career opportunity or wait for children to finish school before building their home

Land loans can be difficult to obtain, and lenders may treat your loan differently depending on the type of lot you purchase. If your lot already has access to utilities and roads, the loan may have different terms than a lot that is undeveloped.

Construction Loans

If you've found a piece of land, finished your house plans and found a builder to work with, a construction loan is your best option. These are short-term loans and the funds are dispersed periodically.

You can use a construction loan to fund the construction of a new home on a piece of land you already own, or you can use the loan to purchase the lot and have the home built.

- If you already own the land, you may be able to use existing equity as collateral for the loan.
- If you're using the construction loan to purchase the lot and build the home, the closing of the land purchase and the construction loan will take place at the same time.

Construction loans can also be difficult to obtain and require a great deal of paperwork before being approved. Make sure that your home plans are as detailed as possible to improve your chances of being approved.

Construction-to-Permanent Loans

Construction-to-permanent loans, also known as "all-in-one" or "single closing" loans, are the most common type of loan that borrowers take out when purchasing land and building a home. These loans will cover the cost of building the home, and then convert over to a permanent loan once the home is built.

These loans allow you to work with one lender and have one closing. The loan becomes permanent once the final inspection has been approved and a certificate of occupancy has been issued. Single closing loans are a more cost-effective alternative to traditional construction loans and the most convenient option.

What to Look for When Purchasing Vacant Land

Now that you understand your financing options, you need to understand:

- Where to find vacant land
- How to know if land is buildable

In theory, finding vacant land is easy. We can help you find the land that will meet your requirements and your budget, in the location that you are contemplating, or, although much more time consuming, you can search for vacant land listings online.

When looking for land, you need to consider more than just the look of the property and whether or not it's buildable. Consider the location, your neighbours, if any, and anything else you would consider if you were to purchase an existing home.

What Makes A Lot Buildable?

Building on vacant land is exciting but not quite as simple as you might think. Some lots are buildable while others are not. Subdivision regulations, zoning ordinances, building codes and permits will partly determine whether or not your lot will be buildable.

Provincial, federal and health department regulations will also need to be taken into consideration. Regulations regarding endangered species, wetlands, water quality, toxic materials and other more complex environmental issues may prevent you from being able to build on a piece of land.

Before making an offer on a piece of land, you need to ensure that you do your homework to ensure that the lot is buildable from both a legal and practical perspective.