



## **Mistakes You DO NOT Want to Make** **When You Buy a Home in Florida**

### **Overview:**

*Knowledge is said to open doors. This is literally true when it comes to buying a home. Buying a home in Florida has its own set of issues and which are the same whether you're shopping for a starter home or a lavish mansion.*

*If buyers don't understand the issues and make a mistake, they might very well be stuck with the consequences for a long time, that is why I am offering this report. It is designed to give you information about buying a home in Florida that will help you avoid costly mistakes and save you money, time & aggravation.*

*Please contact me with your questions. Thank you Joan Breiner, 941-312-1845.*

### **Mistake #1:** **Not understanding Florida's Property Taxes**

The property tax that is listed on the MLS (Multiple Listing Sheet or in the tax records) is not the same property tax you will pay when you purchase the house.



Sarasota's Property Tax is based on the average market value (aka "Just Value") of your property. The market value is reassessed every year as of January 1st, by the Sarasota's Property Appraiser's Office.

Under Florida law, homeowners may be eligible for a homestead exemption, property tax deduction of \$50,000 , on the assessed (taxable) value of their home. Additionally, homesteaded property owners also qualify for Florida's *Save Our Homes* Act.



This act is a Florida state law that limits any increase in assessed value of properties to no more than 3% annually or the Consumer Price Index change, whichever **is less**.

If the seller has been in their own home for a number of years and qualifies for homestead status, their taxes will be lower than someone who has just bought the house.

Additionally, your taxes **are lower if you own property in the Sarasota county** than if you own property in one of the county's cities (Long Boat Key, City of Sarasota, City of Venice, or Northport).



Sarasota County's cities all have additional taxes that support the specific municipality.

For example: In Sarasota county, your taxes are roughly 1.5% of the average market value. But, a home a few blocks away, located in the City of Sarasota, has property taxes that are closer to 2% of the average market value.

Sarasota Property Tax Millage Rates: Consult the Millage chart on the tax collector's site for details of what is included in the property tax bill for the various municipalities.

## **Mistake #2: Not taking advantage of Reinsurance Rates when buying Title Insurance**



**Your mortgage lender is going to require Title Insurance.** Title insurance protects the lender and the secondary markets to which they sell the loans from defects in the title to your home and property.

The amount of the policy is equal to the amount of your mortgage at its inception. You pay a one-time fee as part of your closing costs. If you are purchasing a home, you should also purchase an owner's policy which provides coverage up to the purchase price of the home you are buying. Title Insurance rules in Florida are highly regulated so every title company in Florida charges the same for title insurance.



The rates are:

\$5.75 per \$1,000 of value up to \$100,000  
(or \$575 for \$100,000 of property value).

\$5.00 per \$1,000 of value up to \$1,000,000  
(or \$500 for every 100,000 of property value)

**However**, the cost can be significantly less if the seller's title insurance can be reissued to the new buyer.

If the seller's home has recently been refinanced, or they have owned the property less than 5 years, the current title policy may be reissued to the new buyer.

Title companies make more money on the title insurance if they do not reissue the insurance, so it is **important to ask if the title can be reissued**.

### **Mistake # 3** **Not understanding FEMA's 50% rule when calculating a home renovation.**



Planning to renovate a home after it is purchased is a common practice, but the cost of the renovation may be limited by the FEMA's (Federal Emergency Management Agency's) 50% rule.

If the home does not meet the minimum FEMA's floodplain requirements, FEMA's flood insurance rule restricts renovations in flood-prone areas to 50 percent of a home's value. Beyond 50 percent, FEMA mandates that homes be elevated to protect the flood insurance program from big payouts. The rule only applies to the value of the home. It does not include the value of the land.

For example: You buy a waterfront home for \$450,000. Sarasota Property Appraiser's Office may indeed value the property at \$450,000, but the value of the property includes both a land value and an improvement value (home value).



In this example, the value of the land is \$300,000 and the improvement value is \$150,000. The 50% rule is applied to the \$150,000 value only. So you cannot spend more than \$75,000 at any one time to renovate your home.

Note that once you complete one renovation project and get a certificate of occupancy, you can start another renovation project as long as it does not go over the 50% rule.

Section 3401.7.2 of the Florida Building Code requires that you bring your entire structure into compliance with the code if the cumulative value of construction during any one year period exceeds 50% of the value of the structure (all new work must be in full compliance regardless) You can use the Sarasota Property Appraiser's value or provide your own appraisal.

## **Mistake #4**

### **Not understanding the insurance limitations**



**Know about exclusions to coverage.** Most homeowners' insurance policies cover damage caused by windstorms, hurricanes and hail, unless your dwelling is in the high-risk area known as the Wind-Pool Zone.

If your dwelling is in this area, it is likely that windstorm coverage will be excluded and you will need a separate policy for this coverage.

It costs more to maintain a separate wind policy. The State of Florida has a website that provides consumers with information about insurance

<http://www.myfloridacfo.com/Consumers/Guides/Property/overview.htm>

Flood Insurance is always a separate policy and only covers up to \$250,000 worth of damage.

## **Mistake #5**

### **Not Hiring A Wind Mitigation Specialist Before You Buy Wind Insurance for Your New Home**

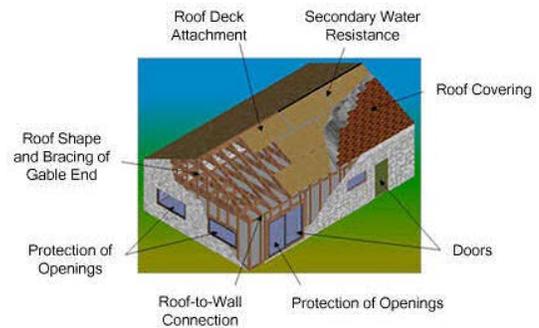
As a Florida homeowner, you are entitled to certain premium reductions or discounts on your wind insurance that have been mandated by state law.



The primary factors in wind mitigation discounts are the wind-resistant features of the property.

These features include things like concrete block construction, gable end bracing, a hip roof, the presence roof straps, impact resistant glass, shutters and reinforced garage doors.

It can pay to hire someone to do a wind certification inspection. An inspector will come and inspect the home and complete a wind certificate. The insurance company uses this to calculate the cost of your insurance.



Homeowners save between 10% - 40% on their annual premium costs depending on how many wind resistant features are present in the home. Florida State has compiled a comprehensive report you can download for free by going to this web page

[http://www.mysafefloridahome.com/images/User%20Guide\\_final5.pdf](http://www.mysafefloridahome.com/images/User%20Guide_final5.pdf)

## **Mistake # 6** **Assuming foreclosures are great deals**

Just because the previous owner owed \$350,000 and the bank foreclosed on it – it does not mean it is a good deal. Many times foreclosures are good deals, but the major consideration with buying a **foreclosed home is how long the home has been empty?** The longer a home is empty, the higher the potential for problems as the house has not been properly maintained because the previous owners in many cases were financially strapped. Foreclosed homes can require extensive renovation or repair.



Weigh the costs of fixing up the property against the savings you'll likely reap by buying a lower-priced property and remember FEMA's 50% rule. See Mistake #3: *Not understanding FEMA's 50% rule*

Also know prices: Check the value of similar homes in the area so you recognize a fair deal for a foreclosed property, taking into consideration any repairs that need to be done. Ask your real estate agent to do the "comparable's" (sales price of completed sales in the area).



## **Mistake #7**

### **Buying a home built with Chinese Drywall**

During the building boom of years in Florida (2001 to 2006) when an unprecedented increase in new construction occurred, there was a shortage of drywall and many builders bought drywall

from China. The drywall was made with certain chemicals that have been known to cause corrosion problems in the electrical wiring and plumbing systems of the home.

The chemicals have been found to leech out of the drywall in the form of gas causing a sulfur smell and it can have health consequences.

Florida's Health Department has issued some guidelines. If the home you are considering meets these three criteria, then you should get is professionally inspected.

#### **Criteria 1:**

#### **Sentinel Indicators of Drywall Associated Corrosion (Possible Case = all 3)**

1. The home was constructed or renovated with new drywall since 2001.
2. Observed corrosion of air conditioner evaporator coil exemplified by black corrosion on copper tubing components. *The corrosion can result in refrigerant leakage making it impossible to cool the home requiring coil replacement. Coil failures indicative of this problem typically occur every 6-14 months*
3. Observed metal corrosion, indicated by blackening of **one or more** of the following:
  - copper wires, ground wires, and electrical connectors
  - un-insulated and un-coated copper pipes and fittings
  - chrome-plated bathroom fixtures
  - silver and copper jewelry
  - mirror backing in bathrooms

For more information [see: http://www.doh.state.fl.us/environment/community/indoor-air/casedefinition.html](http://www.doh.state.fl.us/environment/community/indoor-air/casedefinition.html)

## **Mistake # 8:**



## **Buying a For Sale by Owner and not including two important contingency clauses in your offer**

When making an offer, ask for two important clauses -- a **mortgage financing contingency** and a **professional inspection contingency**

These are standard clauses and included in the Florida Association of Realtor (FAR) purchase agreements. However, if you purchase directly through a seller and use a different contract make sure these contingencies are included.

The mortgage financing contingency clause saves you if the home doesn't appraise for the offered price or you do not get a favorable mortgage rate. You can cancel the sale and renegotiate the price or get back your deposit.

However, **you can lose your deposit if you alter your financial picture** and no longer qualify for the loan. See Mistake #9: *Altering Your Financial Picture Prior to Closing*,

The second clause hinges the deal on a professional housing inspector. If the inspector discovers hidden flaws **that have not been disclosed** in the seller's home disclosure, you can renegotiate the price, get your deposit back or ask seller to pay for repairs. An additional inspection might be required if the home was constructed or renovated with new drywall since 2001. See Mistake # 7: *Chinese Drywall*.

### **Mistake # 9: Altering Your Financial Picture Prior to Closing**

Once you qualify for a loan **do not buy anything on credit or make large purchase decisions** that affect your finances and asset allocations.

Large purchase such as furniture for your new home, automobiles, appliances, etc. may affect your credit rating and disqualify you for your loan.

If you are disqualified for a loan, **after your loan contingency has expired**, you can forfeit your down payment or earnest money in addition to losing the home.

### **Mistake # 10 Working with a Realtor who also Represents the Seller**



In Florida, as well as elsewhere, a dual agency relationship is legally permitted. This means that both sides of the transaction can be represented by the same agency.

Although permitted, it may be difficult for a *dual agent* to advance the interests of both the buyer and seller.

When you use the same agent for both sides of the transaction, there is an inherent conflict of the interest, and as a result, the agent is not exclusively working on your behalf.

To be properly represented, you want your agent to:

- Research the property, seller, and market conditions, so you can purchase at the best price.
- To show you comparable properties and provide an honest analysis of each property, both good and bad points.
- Assist in preparing an offer to purchase the property with *terms favorable to the buyer*, such as negotiating with the seller for a smaller deposit for the house, or having the cost of repairs paid for by the seller.
- To help find inspectors, title companies, and lawyers to examine the property being purchased.



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