

# Are you thinking of building?

By [Adrian Goslett](#)

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Unless you have the cash saved up, constructing a home is going to require getting a loan from a financial institution called a building loan. Essentially, a building loan can be used to finance the construction of a home, additions to an existing property or renovations.



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Once an applicant has been approved for the finance, a loan account will be created by the bank from which they will pay the contractor as the work on the home progresses, these payments are aptly referred to as progress payments. The progress of the construction will be assessed by an assessor from the bank who will determine the amount of the loan that will be paid to the contractor. The bank will not charge interest on the unused portion of the loan. However, interim interest will accrue on the money that has been paid out. Applicants will need to make provision to pay the interest charged to avoid a shortfall when the final pay-out of the loan is made.

## Unforeseen costs

When it comes to building or renovating a home, there are always unforeseen costs that rear their head, so it is important to prepare for this in advance. Several aspects could have an impact on the cost of the project such as delays in the schedule caused by weather or labour strikes. It is not uncommon for a project to cost an additional 20% more than the original estimated cost of building the home. Much like saving for a deposit to purchase an existing home, those who decide to build will need to have some cash set aside. It is also important to bear in mind that there will be an initiation fee and other costs charged on the loan itself.

When applying for a building loan, applicants will be required to provide the bank with the following documentation:

- Copy of the Offer to Purchase on the stand, along with a building contract
- Schedule of planning and finishing dates
- Either provisional or approved plans for the home so the bank's assessor can determine its estimated value
- Detailed quotations which include all specifications regarding materials and finishes
- Copy of the builder's National Home Builders Registration Council (NHBRC) certificate
- Written waiver of the Builder's Lien, which is the right the contractor has to retain the keys until full payment of the contract is received. The bank becomes the preferred creditor if this right is waived.



## The process of rezoning or subdividing

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In some instances, the bank may have special conditions that they require the applicant to adhere to, such as commencing or finishing the project within a certain time frame. Other conditions could be that the plans for the home comply with the bank's minimum requirements and regulations, the builder is registered with the NHBRC or that the stand is located within a proclaimed residential area.

If the applicant meets the bank's criteria and adheres to the special conditions, a building loan can provide the means for an applicant to construct and live in their ideal home.

## ABOUT ADRIAN GOSLETT

Adrian Goslett is CEO and regional director of RE/MAX Southern Africa. He joined RE/MAX Southern Africa in 2005 as a franchise development consultant, supporting various regions and offices. Throughout his career at RE/MAX he has held various positions. In 2010, after successfully leading 160 offices and over 1500 agents in six countries through the worst years real estate has ever seen in South Africa in 30 years, Goslett was appointed as CEO of RE/MAX Southern Africa.

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