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## **OLR Bill Analysis**

### **HB 7027**

#### ***AN ACT PERMITTING THE USE OF CONDOMINIUM DEPOSITS FOR CONSTRUCTION AND DEVELOPMENT.***

#### **SUMMARY**

Under certain conditions, this bill allows residential condominium developers (“declarants”) to use a purchaser’s deposit for actual construction costs, rather than keeping the funds in escrow.

Existing law requires certain deposits toward the purchase or reservation of a condominium (or other common interest community) unit to be placed in escrow. This applies if the seller is someone, such as the declarant, required to deliver a public offering statement before offering units to the public.

Current law requires these deposits to be kept in escrow until delivered to the declarant (at closing or due to the purchaser’s default) or refunded to the purchaser. The bill provides an additional option by allowing the deposit to be used for construction costs. Specifically, it allows the declarant, under certain conditions, to withdraw funds from the escrow account, in excess of 1% of the purchase price, for the actual costs (see below) of the condominium’s construction, development, and design.

The bill allows this if the (1) sale contract provides for it and (2) purchaser represents in the contract that the purchaser is an accredited investor as defined in federal securities regulations (see BACKGROUND). If the bill’s criteria are met, the declarant may withdraw funds from escrow as described above when construction has begun, for eligible costs incurred after the end of the purchaser’s 15-day right to cancel the contract.

Under the bill, if the purchase agreement allows the deposit’s use for this purpose, it must include the following statement, in bold type, on

the first page and immediately above the space for the purchaser's signature:

“ANY PAYMENT IN EXCESS OF ONE (1%) PER CENT TOWARDS THE PURCHASE PRICE MADE TO THE DECLARANT PRIOR TO CLOSING PURSUANT TO THE PURCHASE AGREEMENT MAY BE USED FOR ACTUAL COSTS OF CONSTRUCTION, DEVELOPMENT, AND DESIGN, AS DEFINED IN C.G.S. 47-271.”

The bill defines “actual costs” for this purpose to include demolition costs; site clearing; permit or impact fees; architectural, engineering, and surveying fees; and construction, development, and design costs of furnishing and equipping the property. Sales and marketing costs are excluded. The bill also prohibits the withdrawn funds from being used for salaries, commissions, expenses, real estate licenses, or advertising purposes.

The bill makes a conforming change by requiring the public offering statement to indicate that a deposit on a unit may be withdrawn and used for the above purposes rather than kept in escrow.

The bill also specifically requires any deposits or other payments made before the closing on the initial sale of a residential condominium unit, and for related common elements, to be held in escrow. This applies to units with building permits issued after June 1, 2025, to be occupied by the purchaser or his or her family member or employee. (It is unclear how this requirement aligns with the bill's provisions on withdrawing escrow funds for construction costs.)

The bill's provisions apply to condominiums governed by the state's Common Interest Ownership Act (see BACKGROUND).

EFFECTIVE DATE: July 1, 2025

## **BACKGROUND**

### ***Accredited Investors***

Under federal Securities and Exchange Commission regulations, “accredited investors” are those qualified to buy and sell unregistered

securities. This generally includes, among others, certain banks; securities brokers or dealers; insurance, investment, or business development companies; and individuals with a net worth or income exceeding certain thresholds (e.g., an individual income over \$200,000) or who hold certain professional credentials (e.g., investment professionals) (17 C.F.R. § 230.501(a)).

***Common Interest Ownership Act (CIOA)***

CIOA governs condominiums and other common interest communities formed in Connecticut on and after January 1, 1984 (CGS § 47-200 et seq.). Certain CIOA provisions also apply to common interest communities created in Connecticut before January 1, 1984, but do not invalidate existing provisions of the communities' governing instruments. Common interest communities created before that date can amend their governing instruments to conform to portions of CIOA that do not automatically apply (CGS §§ 47-214, -216 & -218).

**COMMITTEE ACTION**

Housing Committee

Joint Favorable

Yea 17    Nay 1    (03/06/2025)