

Buying off the plan

A 'how-to' guide for buying residential property off the plan, for first-time buyers as well as the more experienced purchasers.



The south eastern corner of Queensland is experiencing an unprecedented period of population growth and change.

With more focus on the convenience of living in close proximity to the city, population density will continue to increase. Both small and large multi-unit residential developments are replacing much of the traditional areas of housing. New multi dwelling developments have been increasing their share of the market and now account for around 50% of new residential sales throughout South East Queensland. Generally individual residences within these new developments are sold off the plan, before and during construction. Most apartment projects in Australia today start with an off-plan marketing programme. And buying off plan (also called off the plan) is quite a common strategy for both owner residents and investors.

Buying off plan has its pros and cons – you do need to be diligent about how you go about the buying opportunity. Time spent understanding the process and researching opportunities will help produce an outcome to best suit your needs as a buyer.





What information is covered in this brochure?

An overview of the process

The benefits and risks of buying off the plan

A comparison of “new versus old”

When should I buy, when first released or after the building has started construction?

Fixtures and fittings, colour schemes, what if I want changes?

How and when to arrange your finance

For the Investor

The paperwork

The deposit

The settlement process

The First-Home-Buyers grant

Place Projects and Place Advisory, a summary of services to assist you in the process

Six tips to buying off the plan

1

Get yourself into financial order

Know your financial position, your borrowing capacity and the lending policies of the bank in relation to different property types and locations. An obligation free meeting with a financial broker experienced in “off-plan” sales is a great place to start.

2

Do your research

Don't buy the first property you look at. Understand the median apartment prices growth, vacancy rates, rents, employment statistics and demographics. Get to know the area, transportation linkages, and current and planned infrastructure projects.

4

Be informed

Get proper independent legal advice from a specialist property lawyer before signing anything.

5

Timing is everything

Understand the time frames around the delivery of the project and the sunset dates in the contract of sale (the sunset date is the final date for the developer to deliver the building).

3

Research the development team

Who's going to deliver this project? What's the track record for the builder, developer, architect and sales agent? Go and visit some of the builder and developers recent projects.

6

Understand your property needs

This should include a basic overview of number of bedrooms, living areas, outside deck area etc. You will need to consider your preferred quality of various finishes and fittings to be supplied. Cost will often be a factor, so it is suggested to consider a list of "must haves" and a list of "nice to have".



Benefits





It's new

Your new apartment, common property and the various facilities are all brand new.

Choice

The opportunity to select the best possible product, the earlier you purchase after project release the bigger the choice; invariably the best apartments sell first.

Time

To organise purchase or time to sell your existing home in a manner to maximise the value – generally up to two years to settle.

Opportunity

It may be possible to make select changes to the individual property; some colour scheme and personalisation (generally at cost to buyer).

Buy at contract price

With just 10% outlay for deposit (remains securely held in trust).

Significant taxation depreciation benefits

For both whole building and individual property – available immediately on completion. This will suit the investor (seek advice from a qualified quantity surveyor and your accountant).

Potential for capital gain

From the time of signing the contract to settlement, that is buying at today's prices for delivery in the future.

The right to sell before settlement

If prices have escalated (perfect for buying in a growing market).

Faster tax relief

With the Capital Gains Tax (CGT) discount, the contract date is when the seller signs the contract and is regarded as the effective date of sale. If you sell after 12 months you may qualify for the 50% CGT discount. This can occur before settlement (seek advice from a qualified accountant).

Furniture package

Investors have the opportunity to set up their new property with a furniture package if it is considered favourable for rental purposes. This may increase the rental yield (seek advice from your property manager).

Body corporate and property management of the building

The building, common areas and common facilities will all be looked after for you by the building manager. Read carefully the Disclosure Statement (that forms part of the contract of sale) to understand all the details about the function & management of the building after settlement.

Extra benefits for the investor

Higher depreciation values normally exist for units than houses, meaning greater tax savings (the sale price will normally consist of higher property value and lower land component resulting in higher tax savings than a detached dwelling – talk to your cost consultant).

Higher rental yields generally favour units over houses (*Source: RPData*).

Less maintenance issues for units, more hands-off investment, most people are too busy to be involved (there is no external maintenance required by the owner; no lawns to mow etc).

Risks





Make sure property is right for you

Does this property meet your planned wish list? Research the property and the area. Will it have long term appeal for you and for likely future buyers.

Value risk

On signing a contract to purchase at a fixed price, the value on settlement is not known. Normally property values increase, and the cost of construction generally increases continually. However, the value on the completion of sale may be the same, or more or less than the contract date. Your obligation to complete the sale will be at the contract price.

Contract of sale

Be completely satisfied with the terms of both the contract and the disclosure statement. The disclosure statement details your purchase as well as the ongoing running and costs of the building. Discuss these issues with your solicitor.

A buyer has the legal obligation to settle the sale

If the development is completed in the manner described in the contract before the sunset date, there is an obligation to complete the contract. Be aware of delays at the start of construction; know your "sunset date".

If the buyer cannot settle the sale

The developer generally has recourse to take the 10% deposit and to enforce the completion of sale, or to take legal action to recover the balance of the purchase price (after making another sale of the property) plus costs (seek legal advice as to your obligations).

Off-plan contracts generally not subject to finance

It is prudent to discuss your financing needs with an experienced off-plan broker or banker before your purchase. A lender may indicate your suitability to be approved for a loan, however normal practice is to arrange funding around three months prior to settlement.

Bank funding process

Your lender will require a valuation which will be performed at the request of the lender once the building is virtually complete in the lead up to sale. This valuation may or may not be at selling price. The lender will normally lend an agreed percentage of the valuation amount.

Insufficient sales to proceed

In the majority of cases, developers will require a certain number of off-plan sales to enable construction funding so that construction can commence. In some cases, if sufficient sales are not made, the project may not proceed. In this case the deposit is refunded. This may result in lost opportunity for a buyer as they are out of the market for a period. A developer with a reputation for well-considered projects and regular delivery of completed projects is worthy of consideration.

First-Home Buyers

First-home buyers are generally short on cash and often have difficulty in finding funds quickly that are required for a finished property with a short-term settlement.

Buying off the plan will give a first-home buyer time – time to save for settlement, time to plan for settlement, potentially time for capital growth prior to settlement (as most developers offer lower prices and financial incentives at the start and put prices up once construction has commenced) and time to make all the relevant applications for the first homeowners grant.

Buying off the plan will also give a first-home buyer advantages not available to a purchaser of a finished second-hand property, such as:

- Stamp duty savings in many instances
- The ability to customise floor plans and finishes
- More choice in terms of apartment types, which means greater choice of layouts, views and finishes
- Easy payment terms with only 10% deposit required and the balance due on settlement
- Often, interest on deposits can be received when cash deposits are paid
- Security for deposits as all deposits are held in trust
- Alternative deposits, which mean you can use a lower cash deposit, a bank guarantee or a deposit bond (project dependent)





Congratulations on giving consideration to all the matters discussed in this booklet.

By way of some final thoughts, research the market well and work with people experienced in off-plan sales. Your team may consist of one or more project sales people, an off-plan lawyer, and for the investor consider advice from an accountant.

Your salesperson should provide you with a depreciation schedule for your accountant to consider. To bring all this together, a conversation with a good finance broker or personal banker would be worthwhile.

Your chosen project should meet your specific needs for your ongoing enjoyment. To protect your future values, your projects should have the following traits:

Appeal to immediately surrounding community

Centre around transport nodes or developing infrastructure

Have underlying population growth

Be price point driven

Be consumer focused



Place Projects is a Brisbane based premier project marketing company. Specialising in marketing off-the-plan apartment developments, we provide a full service sales organisation to the South East Queensland market.

Our passion for innovation and exceptional results ensures interaction with quality people, quality properties and quality marketing.

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