



# Are You Tempted to Buy Off the Plan?

Presently, one of the contributing factors for our robust property market is strong buyer demand unable to be satisfied with the limited supply. This demand surplus is therefore looking for other ways to be satisfied and has resulted in off the plan sales making a comeback. Off the plan sales have also proved to be more popular in rising markets as many buyers feel that buying at today's prices will deliver a healthy capital gain on the project's completion<sup>1</sup>.

The current price gap between house and unit prices has also driven buyers towards an apartment lifestyle (the median unit price is now 66% lower than the median house price<sup>2</sup>) further supporting a return to off the plan apartment sales.

Looking at entering the property market and struggling to find opportunities in the current marketplace? Potentially an off the plan apartment purchase could be a viable option.

Although not as straight forward as a bricks and mortar purchase, purchasing off the plan may have some advantages, but it's important to be well informed before you jump in.

## Deposit down now, buy later

Ready to pay your deposit now on an off the plan purchase? There is more to consider than just when your apartment will be completed and if it is likely you will receive a capital gain upon completion.

Before making a decision, you will need to carry out your research, weigh the risks and understand as much as you can about what you could be getting into.

### ***Consider these factors before making a decision:***

- **Research the developer and builder** – Find out as much as possible about the track record of their completed projects to ensure they are reputable. Visit and inspect the quality of their previous developments.
- **Beware of rental guarantees** – Developers will sometimes offer rental guarantees to entice investors and offer them peace of mind with rental income. While there are advantages with rental income stability (property management is sometimes included), the property may be sold at an inflated price as a way for the developer to subsidise the rental guarantee. Guarantees can vary and it is important to read the fine print.
- **Read the legal fine print** – Buying off the plan is vastly different to buying an established property. We highly recommend you engage a legal expert and seek independent legal advice to review the contract before you sign the paperwork. There are varying terms and conditions related to off the plan contracts. For example, a sunset clause is a statement that puts a time limit on the contract's validity. If settlement has not taken place by the end of the date in the sunset clause, both parties

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are legally entitled to walk away from the contract. Plus, off the plan contracts will have a 10-business day cooling off period – twice as long as buying an existing home.

- **Choose the right time to apply for a loan** – Most lenders will assess your financial situation when the apartment is close to completion. While most lenders can provide an 'indicative' approval at the time of signing contracts, given construction could take up to two years, your circumstances may have changed and the initial approval is no longer applicable. If there is an adverse change to your financial circumstances, you could risk being declined and defaulting on the contract.

As a minimum, we would recommend that you determine your ability to finance the purchase of the apartment before entering into the purchase agreement. As your financial specialist, we are here to ensure this option fits your long-term goal and financial circumstances.

Many say the sooner you can get on the property ladder the better. But it shouldn't come at the cost of your financial future. Ensure you do your due diligence and look beyond the lavish display suites and fancy brochures.

<sup>1</sup> *Off-the-plan is back as property prices take off, AFR 5 February 2021 - <https://www.afr.com/wealth/personal-finance/off-the-plan-is-back-as-property-prices-take-off-20210204-p56z1z>*

<sup>2</sup> *Record price gaps between house and unit prices are driving buyers towards the apartment life (domain.com.au)*

Read our guide to the pros and cons of buying off the plan before signing on the dotted line.

