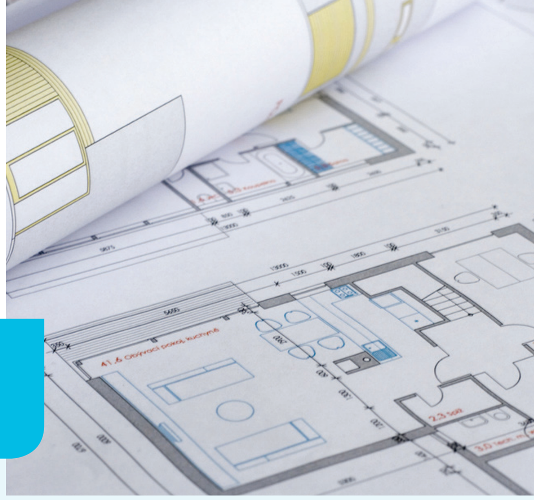
ZEP FINANCE

M 0401 158 896
F (02) 6678 0873
E zain@zepfinance.com.au
W www.zepfinance.com.au
FB www.facebook.com/zepfinance



# Buying a property 'Off Plan'

People who insist on seeing and visiting a property before they consider buying it, are likely to miss out on the benefits associated with buying a property "off the plan". A property purchased off the plan may be one that is yet to be registered with the Land Titles office because it is either partially completed, or construction is yet to commence. Although there are considerable advantages in buying a property off the plan, you need to also understand the potential disadvantages. You should also consider obtaining professional advice from a financial planner, solicitor and/or an accountant to assist with your decision.

The information below summarises the pros and cons of buying a property off plan and provides tips intended to help you make the best decisions towards optimising your investment opportunity.

## PROFITING FROM AN OFF THE PLAN PURCHASE

In a rising market it is common for people who purchased off the plan to settle their property at well below market value (tomorrow's property at yesterday's prices). Developers often hold back some property sales in a project until the end of construction, which is when they expect to realise a premium sale price. As land values often rise and construction materials and labour costs steadily increase, **property bought in the future will usually cost more than property bought today**. When you have a fully executed contract of sale, the purchase price is fixed and any capital growth during the construction phase of a property purchased off the plan is yours to keep!

## SUMMARY OF BENEFITS - BUYING OFF THE PLAN

- Will not have to pay, the full amount, for months or perhaps years
- NO rates or body corporate fees or maintenance payable prior to settlement
- NO need for a tenant prior to settlement
- Property will still be brand new at settlement (which could be up to two years or more away)
- Settle in the future at today's (or yesterday's) price
- In the case of negative gearing, if an alternative property was purchased that was already completed, then the after tax cost of the loan is avoided until settlement in the future (see example below)

## AFTER TAX COST EXAMPLE

- If a property costs $300 a week (before tax) to hold, and
- If the negative gearing benefit produces $100 a week tax saving
    - Your net cost (after tax) would be $200 a week; ie, you need to pay $200 a week out of your own pocket
- Buying off the plan means you would not save the $100 in tax while the property was under construction, BUT
- Buying off the plan means you would not be paying the $200 a week shortfall!
- So, buying off the plan means that your $100 a week still goes to the tax office but you don't have $300 a week holding costs
    - Even though you are not saving your tax you are still $200 a week better off having an off the plan property that has not yet settled and any capital growth during that time is earned without negative cash flow!

## WHAT HAPPENS IF A PROJECT RUNS OVER TIME

It is common for Development Projects to run over the scheduled time and be completed long after they were supposed to. This is an advantage due to cash flow savings shown in the example above which are increased. With the purchase price being fixed, the longer it takes a developer to complete building your property the better. Your capital gains will continue to accumulate yet you are avoiding that cash flow shortfall until settlement. The longer a project takes to complete, the more money you are likely to save. You could settle on a property with two years capital growth already accrued, yet its fixtures and fittings are still new. This potentially allows you to charge a higher rent than if the property was already two years old.

## BUT THERE IS A NEGATIVE SIDE TO OFF THE PLAN PURCHASING

While the long time frames involved with developments can be to your advantage (as mentioned above) they can also work against you when it comes to dealing with obtaining finance. Any finance assessment and approval from your lender will usually expire within three months, whereas you may not need a loan for up to two years.

You will need to satisfy the finance clause in the property contract which results in it being “unconditional”, normally 21 days from the date of contract. However, you will not have unconditional finance approval from your lender until towards the completion of building your property.

***Although the above is a downside to buying off the plan, it is where I as a qualified and experienced mortgage broker can help you to manage the situation.***

So how can I help? I will assess your current borrowing capacity to check whether you qualify for the required finance under the current lending criteria of various lenders, by taking into account your current and future potential financial and family situation. As we draw near the completion of the new property, I can then lodge a loan application with an appropriate lender to secure the funds you will require at settlement.

In the meantime, there are some aspects that we will need to manage and monitor.

They include:

1. **Changes to your financial situation.** We will need to ensure that any changes you are contemplating, do not disqualify your ability to borrow the amount needed to settle the loan. For example, don’t change jobs, or cut back your hours, or borrow money to renovate your home, or increase credit cards substantially, etc. without first allowing me to assess how any changes might affect your borrowing capacity.
2. **Lenders’ loan approval policies.** The global credit crisis has resulted in most lenders tightening their loan approval policies. Someone who previously qualified for funding could now find themselves unable to qualify for a loan. As your finance broker, I am here to monitor the situation with any changes to lenders’ policies and can discuss the potential impact with you. If necessary, I can approach alternative lenders to obtain funding leading up to settlement.
3. **Valuations.** Valuations are conducted by independent property valuers appointed by lenders. It is common for valuations received to be at up to 10% below contract price. We will take that into account when I assess your borrowing capacity and structure an appropriate loan solution. It is wise for us to keep a little “up your sleeve” as a contingency. We will usually have your current home valued during the initial 21 days finance clause of the purchase contract to determine what equity you have at that time.

## IN SUMMARY

- When buying an already completed property, you will need to manage any weekly cash flow shortfall and be aware of your tenant’s needs and associated costs
- When buying property off the plan, you need to monitor and manage your personal financial situation until settlement
- Potentially, Off the Plan purchases are suited to those who have a strong employment history and strong equity positions as collateral
- If you expect your future situation will be changing, speak with me ahead of time about planning a strategy that will work for you, both currently and that can be adapted to when your situation changes.

*Your full financial situation would need to be reviewed prior to acceptance of any offer or product.*