

# The Simple Guide to Buying Property Off the Plan



For many people buying off the plan is a new experience with a sense of the unknown. However, with a little research and understanding it may turn out to be a very smart way to buy your next property.

Fast Love Homes developed this guide to help you feel confident in buying a new property off the plan.

**Information in this guide is general in nature. You should seek professional advice before buying any property.**

If you have any further questions about buying off the plan please contact us by email [love@fastlovehomes.com.au](mailto:love@fastlovehomes.com.au) or by phone on **1300 766 607**.

More information on buying property and news about our latest developments can be found on our website [fastlovehomes.com.au](http://fastlovehomes.com.au)

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# What does it mean to buy property 'off the plan'?

Buying off the plan means entering into a contract with a developer to buy a property before the completion of construction. Since there is no physical property to inspect or see, you view the design, building plans and pictures to get an idea about what the property will look like on completion.

One of the biggest advantages of buying a new home off the plan is that you will be the first owner of the property and get a brand new dwelling built just for you.



# Benefits of buying off the plan

There are many benefits of buying a new home off the plan. Let's run through some of the key ones.

## Getting value for your money

Often the price of a property rises after completion. When you buy off the plan, you are paying the current market price for a property, which will be completed in the future. Developers sometimes offer yet to be built property at lower prices to encourage sales before construction starts and sometimes to meet loan criteria set by funding groups like banks. Buying a property before construction saves you money because the price can often gradually rise over time, and once the property is built you have a tangible product to see and touch. The completion of the construction often boosts the value of the property.

## Stamp duty savings

You can often make substantial stamp duty savings if you buy off the plan. Some state governments in Australia offer bonuses and reductions or have reduced stamp duty to encourage new development. In Victoria, the full rate of stamp duty applies on fully built homes, however you can receive generous concessions when you buy off the plan. The further along the construction of the property the less the stamp duty savings you get. In Victoria, if you entered a contract after 1 July 2013 to build or purchase a new home, a payment of up to \$10,000 is available for eligible first home buyers. You can find out more about Victorian stamp duty savings on the State Revenue Office website [www.sro.vic.gov.au](http://www.sro.vic.gov.au)



## Tax benefits

Some people invest in off the plan properties to take advantage of tax breaks. By buying the property brand new you can claim the maximum benefit of depreciation expenses for furniture, fittings and wear and tear of the dwelling. This usually applies to investment properties rather than your own home or principal place of residence, so check with your accountant or solicitor before factoring in these to any numbers you might be calculating.

## Increasing property value

Property prices generally rise over time (though not always). When you buy a property off the plan, you are able to secure the property at the current market price, but not take possession of the property until months or years later, during which time the market may have experienced growth. This means that the value of your off the plan property may have increased by the time construction is complete. Also, when you buy off the plan, you often only pay a deposit of 10 percent and the remaining amount on completion of construction. Thus you don't have large chunks of your money tied up in a property but can enjoy the benefit of capital growth of that property if the market is rising.



## More choice

You have more choice when buying off the plan, potentially allowing you to purchase a home with a superior position or a better view, flexible floor layout and finishes such as stone bench tops or hardwood flooring. You may be able to choose the colour paint you want, and many other smaller details that you can't change once the home is built. As a result, your property has greater potential for strong capital growth.

## More time

With ample time before final settlement you can avoid the stress involved in getting your personal affairs in order before you actually move in. Things like selling your existing house or ending a lease take time to sort out, so having plenty of time to get ready can help minimise the impact of these when it comes time to move in to your sparkling new home.

## Less pressure

Something that is overlooked when buying property off the plan is that you are rarely competing against other buyers for that particular unit/ townhouse. Often there are multiple units in each development that are quite similar, so even if there is another keen buyer, they're probably not looking at the same property that you are. This can relieve the stress of competing with five or six other buyers on an established home where there is only one of them available.

# Risks of buying off the plan

Buying any property is not without risk, and it is the same with off the plan purchases. Below are some of the risks you may want to consider.

## Property values drop in the area you have committed to

This is usually due to oversupply of homes, often apartments in tight geographic areas like the inner city. Or the market may weaken due to economic reasons. To try and protect yourself from this make sure you do some good research on the area. Are there lots of new developments planned for the area, offering similar properties? Is the suburb growing? Have property values increased consistently over time? Some simple research of the area will help you work out what risk level you are looking at.

## The finished product doesn't match your expectation

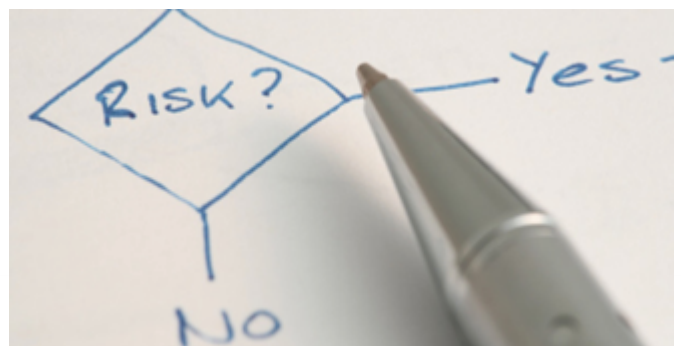
Having committed to something you have not seen and touched raises the possibility that you might not like the finished product. If this is because the finishes are different to what you expected and what was laid out in your contract then you might have some grounds for getting out of the contract. However, if you just don't like it then you might be in for an unpleasant shock in that you have to go through with the settlement. To avoid this you should take the time to carefully review what is being proposed by the developer. The type of fixtures and finishes, the appliances, everything. Measure out living areas in your current home to see how they compare. Better still try and view a project completed by the builder which is of a similar style and finish. Take as many steps as you can to satisfy yourself about what you are buying.

## The project doesn't go ahead

Sometimes developments don't go ahead, and it can be for many reasons. This may be frustrating for you as you may have waited 2 or 3 years for your home to be built. The best way to protect yourself from this is to check out the builder or developer who is doing the project. Do they have a good track record, have they done similar developments in the area? How big is the project? The upside is that if the project doesn't start or finish on time you should be in a position to get your deposit back.

## Your financial circumstances change

As it might take a couple of years from when you sign your contract to when settlement takes place, you might find your circumstances have changed. This may mean you are no longer able to settle on your property. Be aware that this will likely be your problem and not the developers, as you have signed a contract to buy the property. Make sure you are fully aware of your personal position and that you will be financially prepared to settle when the date arrives.



# The four simple steps in buying a property off the plan

For many people buying off the plan is a new experience with a sense of the unknown. However, there is often less pressure when buying off the plan and you may not be competing for the same property as many other buyers. With an understanding of the four basic steps involved in buying off the plan it can be quite simple to buy a new home that you will love.

## Step 1 – Research

The first step in buying a property is conducting some research into the area you want to live. You will quickly work out the general value of the type of properties you like and their availability. If you find a home that is being offered off the plan you will need to discuss with the selling agent some of the key details about the property. Most people want to know when the property will start construction, when it will be finished and when they can move in. Answers to these questions may depend on how many units are in the development you are looking to buy into. Usually developers will be required to pre-sell a number of units in a development before their lenders will loan them the money to get started. This can sometimes make it hard for agents to give an exact date of when building will start. Usually once the construction has started it is a bit easier to predict when the property will be finished.

During this stage you should visit any similar completed properties by the developer or builder to get an idea of the size of the property and quality of the finish. You should also develop a checklist of all the features that are important to you. Things like number of bedrooms, overall size of the property, parking, location to public transport or connecting roads etc.



## Step 2 – Buy your home

When you decide to buy off the plan you simply enter into a contract to say I will buy the property when it is finished being built. Usually you have to pay a deposit (commonly 10 percent) which is held in a trust until the property is settled. In Victoria, you may be eligible for government rebates and schemes on properties being purchased off the plan particularly if you are a first homebuyer. More detail about this is on page 12.

During the buying step, you may be able to choose a colour scheme, special additions or upgrades (known as inclusions) and special appliances that you want in your new home. You can discuss this with the sales agent or the developer. You then have to sit back and wait for construction to commence.

## Step 3 – Wait and watch

Once the contracts are signed and the construction starts, all you have to do is sit back and watch your home being built. Once building starts you should be able to get a more accurate time frame for when your new home will be complete. You can then start to sort out your living arrangements like finishing a lease or selling your existing home, and start planning your move.

## Step 4 – Take possession

After the construction is completed, you will be able to inspect your new home and check to see if everything is the way you expected and if any requested inclusions have been added. If everything is fine, you make your remaining payment to settle the property and take possession. If something is not right then discuss this with the sales agent or developer. You need to make sure that what you are concerned about is something that is different to what you contractually agreed to.





## Defects and warranties

One of the other benefits of buying a new home is that you have a few months to detect whether there are any defects that may show up, like a door that won't close properly or a wobbly door handle, or something else. The builder is obliged to come back and fix them. You also enjoy the security of the builder's warranty that covers structural problems in the unlikely event that something more problematic may show up. Builder's warranties differ in each state so check with your agent about what length of time your warranty is.



# What's involved with getting finance to buy a new property off the plan?

Buying a property off the plan using finance from a lender like a bank is a bit different to buying an existing home. It is easy for a lender to value an existing property. It is a bit harder to value something that has not yet been built. This is mainly due to the fact that the 'value' of the property may increase or decrease between when you sign the contract and when you settle. If you do your research and buy in good locations you can minimise or eliminate the risk of your property decreasing in value.

Banks may be a little more cautious loaning money for off the plan properties particularly apartments and house and land deals in large residential housing estate developments. In Melbourne following the so-called Global Financial Crisis some apartment complexes and house and land deals purchased prior to the downturn actually dropped in value. Those buyers that signed contracts before the downturn found that come settlement they were obliged to buy a property that was worth less than what they had agreed to pay for it.

### **Valuation or purchase price?**

Most banks use market value, not purchase price, to assess your final loan amount and Loan to Value Ratio (LVR). Some others require a review of the pre-approval that was issued at the time of signing the contract before finalising your loan. Some banks offer long-term loan approvals under the condition of an 'on completion' valuation, which would be conducted 90 days prior to settlement. This helps them to re-evaluate the applicant's financial condition and work out that the property value is stable. Some banks offer financing for eligible borrowers but flag the valuation at the time of settlement as a risk to be carried by the buyer.

### **How much can I borrow?**

Every lender has different criteria on how they calculate what they will loan you. It will depend on many things like your income, assets and any other loans. Typically most lenders will loan around 80 percent of the value of a property to protect themselves from potential loss, but this is not a hard rule. If settlement is more than 18 months away, you may find it hard to apply for a mortgage. Though you may get pre-approval from some lenders at the time of signing the contract, they may ask for a reassessment of your application at the time of settlement. Any change in your situation or their lending criteria may affect your application so make sure you know what the impact may be, particularly if you have entered into a sales contract.



**When a bank accepts your application to finance an off the plan property investment, it commits to something proposed on paper at the initial stage. This means the approval is subject to a satisfactory on-completion market valuation before settlement.**

# The deposit

When you are buying off the plan, you will usually be asked to make a deposit, generally 10 percent, so you will need to consider how you will get the money for that. Having a healthy deposit (more than 10 percent) will also open up more lending options for you as the risk is lower for lenders. The deposit will be held in trust until final settlement takes place. This means your money is protected until the project is completed. If the project does not go ahead or finish as expected, you should be able to reclaim your deposit.

## Alternative deposits

There are some alternatives to a cash deposit and they are a Deposit Bond or Bank Guarantee. You will need to discuss with the sales agent or developer if they will accept these forms of deposit. There will also be bank/lender fees and charges for these products.

## Deposit Bond

A Deposit Bond is a form of guarantee offered in lieu of a cash deposit. The issuer of the Deposit Bond, like a bank or other lender, guarantees unconditional payment of the deposit bond amount to the Vendor in the event that the Buyer fails to settle/complete the Contract of Sale.

## Bank Guarantee

A bank guarantee is basically just that.... a guarantee issued by a bank. Basically it's a piece of paper with an official stamp on it, and it gives the holder the right to cash in the guarantee in certain circumstances.

The approval process for a bank guarantee is pretty much the same as a loan approval process, and the bank will only issue a bank guarantee if they can actually guarantee that you're good for the funds.

Basically if you're approved for a bank guarantee you will exchange contracts with the bank guarantee as a deposit. On settlement you will be required to come up with the whole purchase price.

## Get expert advice

If you are looking to get finance to buy an off the plan property make sure you understand how it works and what you can commit to. You should speak with your solicitor or legal adviser before entering any off the plan contract, or any property sales contract. Make sure you get someone qualified to check the contract before you sign.



# Things to consider when buying a new home in a multi-unit development

Here are some things you should consider if you are looking to buy a property in a multi-unit development:

## Find out about the development team

Before buying in a property development, do good research about the designer, developer, and builder to make sure they enjoy a good reputation. The developer is responsible for ensuring the properties are built to specification and finished as quickly as possible.

## Design

A good property design is appealing to the eye and translates to greater resale value. When buying a new home, pay attention to the total unit area and any outside or other private open spaces. A nice open plan living/dining/ kitchen area and functional layout are good design elements that you should look for.

## Proximity to lifestyle facilities

Multi-unit developments close to lifestyle facilities, including shops, transportation, hospitals, schools, supermarkets, cafés, pools, gyms and parks, offer easier living for residents and improve the likelihood of getting better resale value.

## Parking

Parking space is an important consideration when buying off the plan. Consider how much parking space is available for you and your visitors. Is your car space secure? Can visitors easily park when they drop over?



# What is an inclusion list for an off the plan property?

When you buy a property off the plan the inclusion list is basically the shopping list of all the things you will get when the home is constructed.

It will include big things like the type of foundation or concrete slab the house will be built on and the type of frame that will form the basic structure of the house, and smaller items like the door handles and type of paint that will be used on the walls.

It is important that you review the inclusion list carefully, as once you sign your contract and agree to the inclusion list that is exactly what you will get in your finished home.

If an item is not included in your inclusion list don't assume or expect that something better, or not even on the list, will somehow be added along the way, unless you agree to a variation and pay the difference (if any) for the item.

## Tune in to your inclusion list

A classic example is television aerials, often the points and wiring for an aerial are included in a basic inclusion list but the actual aerial is not, so when the new homeowner moves in and plugs in their telly to watch their favourite show they get a shock to find they have no reception. Then when they ring the builder they are further dismayed to find the aerial was not in the inclusion list and if they want one they will have to pay more money to get one installed.

Another small item to look out for is wire screens on windows, sometimes they won't be included in your basic inclusion list,

so if you are looking to buy in an area with lots of flies and bugs it might be worth paying the extra to get the screens installed with the house.

## Basic inclusion list

Other common items covered in an inclusion list are:

- the type of flooring whether it be carpet, boards, tiles or something else
- the types of doors throughout the home
- window frames
- tapware and bathroom fixtures
- kitchen and bathroom benchtops; and
- light fittings and switches.

While you are usually provided with a basic inclusion list to make decision making easier for the buyer, you will also be able to ask for particular items to be included. For example if you have a special type of oven or cook top that you must have in the kitchen, or a particular type of tiles for your kitchen and bathroom. Most of these things can be easily included by negotiation if you buy your property before construction has started.

## Not included not expected

Remember if it is not in the inclusion list it won't make it into your finished house so review your inclusion list carefully before signing your contract.

# Saving cash through stamp duty cuts

Stamp duty is basically a tax on your property purchase and is often the biggest cost of buying a home. However, clever property buyers know that many state and territory governments offers stamp duty savings or concessions for some properties including off the plan units.

## Avoiding stamp duty

The simple reason that you get a stamp duty saving for off the plan sales is because at the time you enter into the contract the stamp duty is based on the value of the land and not the property (as the house is not built yet).

If you buy a property after construction has started you will continue to get a percentage discount on the stamp duty based on how much of the property is constructed.

According to the State Revenue Office of Victoria typically, for single storey developments, the following indicates the percentage of construction at the various stages:

- 15 per cent for base (slab/foundations etc)
- 30 per cent for frame
- 65 per cent for lock up
- 90 per cent for fixing
- 100 per cent for completion.

So to get the maximum savings you need to buy the property off the plan before construction has started.

The stamp duty concession is designed to help encourage new building activity and give home buyers a tax break.

The exact amount of savings you make depends on the price you pay for your property as that is what it is calculated from.

## Saving \$15,000 in stamp duty

For example if you paid \$380,000 for an off the plan 2-bedroom property in Victoria you would be liable for around \$15,000 in stamp duty. However, because you purchased the property off the plan you are only paying duty for the land value not the value of the property. This means you won't have to pay the \$15,000+ tax. That is a great saving to make, and puts you \$15,000 in front.

There may be some other fees and charges that you do not have to pay or get a discount on, so the savings may be even greater.

Stamp duty saving is just one of the reasons smart property buyers look to buy new properties off the plan.

# Stamp duty and concession links

- NSW - [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)
- QLD - [www.osr.qld.gov.au](http://www.osr.qld.gov.au)
- SA - [www.revenuesa.sa.gov.au](http://www.revenuesa.sa.gov.au)
- TAS - [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)
- Victoria - [www.sro.vic.gov.au](http://www.sro.vic.gov.au)
- WA - [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au)
- Foreign purchasers - [www.firb.gov.au](http://www.firb.gov.au)



# What you need to know about owners corporations

Owners corporations have the task of managing the common property of a residential or mixed-use property development.

The owners corporation is responsible for a variety of tasks, in particular maintaining common property. The common property includes areas such as communal gardens, walls, passages, driveways, stairwells and lifts, fences and foyers. According to the Owners Corporations Act 2006, it is up to the owners corporation to repair, maintain, manage and administer such areas. According to the plan of subdivision, plots of land in certain instances can be sold separately. These are usually referred to as “lots” and owners of such lots automatically become members of the owners corporation for that particular subdivision.



## Further responsibilities of the Owners Corporation

Aside from the common property, the owners corporation also needs to repair and maintain services and fixtures as well as take out and keep up-to-date with the required insurance. The OC raises fees from lot owners to cover necessary financial obligations and they also prepare financial statements and keep track of financial records.

The OC should be able to provide owners corporation’s certificates when called on to do so and keep an owners corporation register. It’s also for the committee to establish a grievance procedure.

## How much does it cost to run an OC?

Most owners corporations operate on a tiny margin over and above the usual annual operating costs. In a new multi-unit property development the developer will often establish the Owners Corporation and then it is up to the owners to maintain it.



# Off the Plan Checklist

- Finance** – Work out your budget and/or what you are able to borrow. Confirm with your lender about how they treat off the plan sales.
- Inclusions** - Ask for a clear list of all fixtures and fittings, kitchen appliances, light fittings, and carpets.
- Contract details** – Confirm the details that will be included in your contract. Find out if there are penalties for withdrawing from the contract. Review the contract in detail for clauses about commencement and information on your right to re-sell the property. **Get the contract checked by your legal adviser.**
- Builder/ developer /architect history** – find out about the team doing the development so you can be confident they will deliver everything promised.
- Local market research** – Investigate sales of similar properties in the local area to make sure you are paying fair market value.
- Deposit details** – Be clear on what amount your deposit will be and what form it will take (cash, Bank Guarantee, Deposit Bond etc)
- Legal advice** - Consult with a solicitor or conveyancer to closely check the terms of the contract to make sure your rights are protected before you sign the contract.
- Stamp duty and other costs** – Make sure you work out all the costs involved with the purchase including stamp duty and other ongoing costs like Owners Corporation fees

You can always discuss your expectations with the sales agent or developer to ensure you are clear about what you are buying. Make sure there is mutual agreement with the developer on some or all of your expectations and have them written into the contract. This will help avoid disagreement between both parties at the time of completion. Remember, if it is not in the contract it is unlikely you will get it included in the finished property.

With a little understanding, buying property off the plan can be a way of securing a good quality home at a fair market price, and then influencing how it will be finished so it suits your style and needs.