Buying off the Plans – A Guide

What is buying off the plans

Buying real estate 'off the plan' means committing to buying a property that hasn't yet been built. For both potential home owners and property investors, buying off the plan can be more affordable and flexible than buying an existing property but also comes with other considerations.

Why buy an apartment or townhouse off the plans

Not only do you get a brand new property, built to the latest building code, but the price is fixed at the time of purchase. You also get the opportunity to buy into an exciting new development or precinct. Tenants love new builds, so buying off the plans is a great investment choice too.

Advantages

You can get in early and get a good deal. When buying off the plans, you can often acquire the exact property of your choice, as opposed to having to pick from what is left which may not meet your exact requirements. By buying at this early stage, you have the opportunity to choose the best property, with the best location and views.

You will often make money before the property settle. This is because you get in early and can buy at a comparatively lower price, as prices often rise as construction nears completion. Basically, if the property market is favourable during the construction of your property, you will make a profit on it between the time of paying your deposit and the final instalment.

There are many other benefits to buying off a plan as you are signing up for a new home that will meet all the latest building specifications and therefore be easy to rent. You also get a set price an initially low outlay (10% deposit).

Finally, a long settlement period (while the development is being built or finished) gives you time to get your finances in order. In theory, if the market remains buoyant then the property will increase in value over this period so you will be getting more than what you paid for at the outset and making it easier to finance the purchase at completion.

Disadvantages

As a purchaser, you would enter into an Agreement for Sale and Purchase (ASP). This ASP often has clauses that favour the developer and specify important factors such as how much the developer can deviate from the initial plan to which you agreed.

As well, most ASPs contain clauses that can seek to impose cost escalation so they can pass on construction cost increases. Unless these clauses are carefully limited, a purchase price could increase substantially.

If the market drops during the construction phase and you want to sell on completion, there’s a risk you could make a loss.

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Some projects can take years to complete, and delays can and do happen. It's important to consider these potential delays when planning your future. We would recommend that all contracts have a sunset clause which allows the purchaser to cancel the contract if it runs over time.

In addition, as there is no physical property to view, it may only be at the final stages, or after completion, that you realise your property is built to a lower standard or that certain aspects are not how you had envisioned. Therefore it is important to purchase from a developer who has a good track record of delivering projects on time and to specification.

In short, buying off plan requires all the same due diligence and care as buying an existing property, and then a little more. Not only do you need to be able to visualise a property from a set of drawings, but you must be confident that it will be built to the specifications and timeline set out in the contract.

The process

If you're keen to proceed with buying off a plan, start by putting in due diligence research.

Do your homework about the developer and the construction firm – find out what their track records are, examine their credentials and look at any previous developments they have been involved in.

Generally, buying off a plan means providing a deposit upfront to secure the property. The remainder of the money is due on completion, but you will have to prove that you have the finance from the outset. While the long lead-in period gives you time to save money, there is also a risk that interest rates may go up or lending criteria may change. Discuss these issues with your bank or financial advisor to make sure you are prepared for these situations.

If a real estate agent is involved in selling properties in a proposed development, they can help you navigate the process. It's also important to engage a lawyer to help you understand all the details of the sale and purchase agreement and any covenants on the title. These may extend to the 'look and feel' of a development or new subdivision, and include restrictions regarding fences, landscaping, exterior colour and cladding choices and may even include car parking restrictions for you or your visitors.

Developers will approach selling off plans in many different ways. Some contracts are designed to allow the buyer to choose their own floor plan; others may allow the developer to change the layout without checking first. It's important that you understand that every aspect of the property, from the expected timeline to the finishes used, must be spelled out in the contract.

It is important that you get legal advice before you sign anything. Remember to check the contract to see if there is a "sunset clause" that specifies what will happen if the development is not finished in time.

Contact us

We are experts when it comes to advising on off the plans purchases, we can help with buying strategy and decisions, arranging finance approvals and structures to hold and protect the property.

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We also have many clients who have purchased off the plans and can point you in the direction of property developers who can be trusted to deliver the expected outcomes.

Contact us today via email: info@lighthousefinancial.co.nz or phone: + 64 9 320 4947.

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