Buying off the Plan – For or Against

Buying off the plan is again becoming increasingly popular. Are you thinking about paying a deposit now to buy a brand new off the plan apartment sometime in the future? Before you sign on the dotted line, first consider the pros and cons.

Pros

- **More time to save –** After paying your deposit you are likely to have one to two years to continue to save while the apartment is being built.
- **Builder's guarantee or warranty –** New properties come with a builder's guarantee or warranty. The builder is responsible to ensure the property is free from major defects for five to six years (depending on your state or territory) after the build is complete.
- **Stamp duty savings –** Off the plan purchases can benefit from stamp duty exemptions, concessions or extended payment deferral (for owner occupiers) and vary state to state. Plus, for first time buyers, state governments often provide incentives to buy newly built homes.
- **Capital gain –** Buying off the plan allows you to potentially benefit from property price increases during the period of construction without providing the full capital outlay. Therefore the value of the property could be greater than your purchase price come the time you move in or rent it out.
- **Tax benefits –** Buying a new property as an investment will generally mean you are likely to be able to claim more depreciation and building amortisation than if you purchased an established property.

Cons

- **Possible construction delays –** The developer or you could cancel the contract if the building is not completed. You may not just lose potential capital gains, but there is also the possibility of having to start all over again and pay more for another property.
- **May not meet your expectations –** With no chance to walk through the property before you buy, what you thought it may look like may be different to what it actually looks like.
- **Developer may go bankrupt –** While the majority of purchase agreements should protect your deposit, it is likely that your agreement will be cancelled resulting in you having lost time in the market and a need to recommence your search for an alternate property.
- **Low property valuation –** Lenders will value the property at completion and sometimes the final value may be less than expected. This may impact the loan to value ratio (LVR) affecting the amount of money you can borrow and requiring you to contribute more cash/equity.

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- **Borrowing uncertainty –** Due to the length of time before the property is ready, you will need to wait until closer to completion (typically around 3 months) before applying for finance. In this time, circumstances may have changed possibly reducing your borrowing capacity. These include higher interest rates, changes to bank policy or changes in your financial circumstances (such as reduced income or insufficient savings). You could default under the contract, but it could also mean losing the 10% deposit you have paid.
- **Lender policies may change –** Your financial position may not have changed but their decision making has (eg APRA restricting investment lending and LVRs).

It is important to know what you're signing up for – list of inclusions, the detailed floor plan of the apartment, the developer and their experience, prospective rental income and long-term capital growth potential. It is also prudent to make an informed decision to reach your property buying goals and protect your financial future.

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