The 5 Biggest Risks of Buying Off-The-Plan

If you're in the market for a new home or apartment, you might be considering buying off-the-plan.

This process involves signing a legally binding contract before the development reaches completion. You can invest in off-the-plan properties at the following stages:

- During the planning stages, when an empty lot of land exists
- When an existing property is being demolished for new development
- When construction is partially complete

The benefits of buying off-the-plan are largely financial, and may include:

- Savings on stamp duty
- Tax deductions (if the property is being purchased for investment purposes)
- A purchase price that is usually less than market value

Whilst the benefits of buying off-the-plan can be lucrative, the risks associated with such purchases are significant, and can present a real danger to the uninitiated and ill-informed. Read on for a snapshot of the five biggest risks to be aware of when buying off-the-plan:

1. Unexpected changes to plans:

Contracts surrounding off-the-plan purchases are typically in favour of the builder when it comes to changes that occur to the property during the development phase, so it is important to be aware of your rights before entering into an agreement. For instance, did you know that most off-the-plan contracts actually contain a condition that prevents you from ending the contract if minor changes are made to the dimensions of your property? Such changes can occur when a council demands a certain amount of land to be earmarked for public space, and all the lots in the development are adjusted to account for this.

Another condition to be aware of is the inability to terminate a contract based on any changes to the finishes and fixtures during the construction phase. As the development progresses, market fluctuations and unavailability of stock might cause the builder to make changes to these items, however most off-the-plan contracts contain a special condition that prevents you from ending the contract because of such changes.

On a similar note, it may be difficult to guarantee the quality of workmanship during the building phase. Whilst there is typically a specified 'maintenance period' during which the developer will agree to take care of small repairs, what actually constitutes a repair can be subjective. For example, a developer might refuse to fix a fault if they can successfully argue that the item in question was properly constructed at the beginning of the process.

2. Complications with the developer:

As with any new build, there is a chance that the developer could go into liquidation before the project is completed. If you are considering purchasing a property off-the-plan, you can safeguard yourself from this risk by doing your homework and asking a few key questions before entering into any arrangement.

First of all, we recommend that you take the time to research the developer and check with the relevant licensing authorities to confirm their credibility. Find out how long the building company has been in the industry, and how many properties they have built. It is always a good idea to visit one or more of your developer's constructions so that you can inspect the quality. Take this one step further and speak to some of the developer's previous clients, so that you can gauge their satisfaction with the property.

We also recommend that you ask to see the developer's balance sheet to determine their financial strength, and arrange for any guarantees of the developer's financial status to be written into the contract if possible. In the event that the developer goes into liquidation before your property is completed, and you haven't done the above, then there is a very real danger that you could lose your deposit and other costs.

3. Market volatility:

We understand that it can be exciting to find a 'good deal', but before you rush into a contract for an off-the-plan purchase, keep in mind that market price fluctuation and other housing developments in the area might impact the resell value of your property once it is completed.

As always, it pays to be informed. We recommend that you research the market conditions for your area, and speak with an expert to get an accurate indication of local property prices. They will help you to find out whether high-rises are being built nearby, and whether subdivisions and land grants are available.

One of the biggest risks with buying off-the-plan is that you could pay too much for a property if the market drops between the exchange of contracts and the point of completion. If this does occur, you may find it difficult to secure finance for the full amount – yet you are legally bound by the contract to settle on the property. This is a calculated risk which should not be taken lightly, however it is common for investors to take a long-term view of the economy and simply ride out the inevitable peaks and troughs of capital appreciation.

The good news? Fixing your interest rate (whether fully or partially) is a great way to minimise the risk of interest rate rises, and protect yourself from a volatile market.

4. Ambiguous settlement date:

Did you know that the settlement date for an off-the-plan property is usually meaningless? The settlement of a property can only occur after the plan of subdivision is registered, and the building is complete. As such, the 'settlement date' is only included in the contract for the benefit of the purchaser, in the unlikely event that that the plan of subdivision is registered before the specified date.

The unfortunate reality is that most purchasers will find themselves waiting weeks or even months for an off-the-plan property to settle, so this needs to be considered when applying for finance in case approval lapses before settlement occurs.

Most off-the-plan contracts will stipulate a settlement period of just 14 days once the plan of subdivision has been registered, so it is important that you are financially prepared and that your lawyer moves quickly on the paperwork.

In the event that the plan of subdivision has not been registered within 18 months of the contract's date of sale, then a buyer is typically able to terminate the contract.

5. Expectations vs reality:

It is important to be aware that many builders do not allow you to see an off-the-plan property until construction has been completed – and by then it is often too late to address any issues you have with the finished product not meeting your expectations. Even if the development matches the exact plans and specifications in the original contract (which is rare), there is a strong possibility that you simply won't like it. Perhaps it's in an apartment block, and the freight elevator or air-conditioning unit is causing too much noise. Or maybe the local council has refused to issue parking permits for residents of your building, due to ongoing issues with parking congestion in the area.

It can be frustrating when your expectations (even if subjective) don't match the reality of your new property, however there are steps you can take to minimise this risk. At the very least, we suggest that you:

- Discuss your expectations for the property with your developer, and arrange to have these specifics written into the contract before entering into an agreement for an off-the-plan purchase.
- Visit the property site and assess the location with a critical eye. For instance, if you notice that there are other constructions in the area, then these could very well affect your view.

So there you have it – the five biggest risks to be aware of when buying off-the-plan.

By now we've established just how important it is to have your contract painstakingly reviewed - especially for off-the-plan purchases, which are largely confusing.

At All Hours Conveyancing, keeping our clients informed and protected from ambiguous contracts and risky investments is of key importance to us. To ensure that you don't succumb to any of the risks outlined above, **contact us today** for our straight-forward, no-nonsense advice for purchasing off-the-plan.

Let us take the stress out of your decision by:

- Ensuring that your contract identifies all charges and costs
- Requiring developers to start work by a specific time
- Making sure the lot entitlement and liabilities are shown so you know your exact entitlements to the land after subdivision
- Including remedies and penalties that deter late completion and disputes
- Implementing a 'sunset clause' that allows you to cancel the contract if developers have not met construction requirements.