

BUYING NEW
 CHRIS TOLHURST

Key advice for a good start

Purchasing a property off the plan can be a sound way to invest, but preparation is imperative.

The key advantage of buying a property off the plan is you're securing it at today's prices, but paying for it after it has been built. If you choose well and buy an apartment or townhouse at so-called market value when you sign the contract, the property is likely to be worth more once it's completed.

Experienced property buyers know that buying wisely and successfully managing bricks-and-mortar assets takes time and effort. To avoid costly mistakes, you need to stay on top of these issues.

Finding value

It's smart to get an independent bank valuation before buying property. This is the best way to know if you're paying a fair price. Getting the cut-through on value isn't easy when you buy an off-the-plan (OTP) property, but would-be buyers should try to act like valuers. Develop an understanding of how values work and compare the prices of units being sold in comparable and nearby buildings. Don't believe everything you hear from the person selling the development. You need third-party information, so check the data from companies such as Australian Property Monitors, RP Data and SQM Research.



What to look for

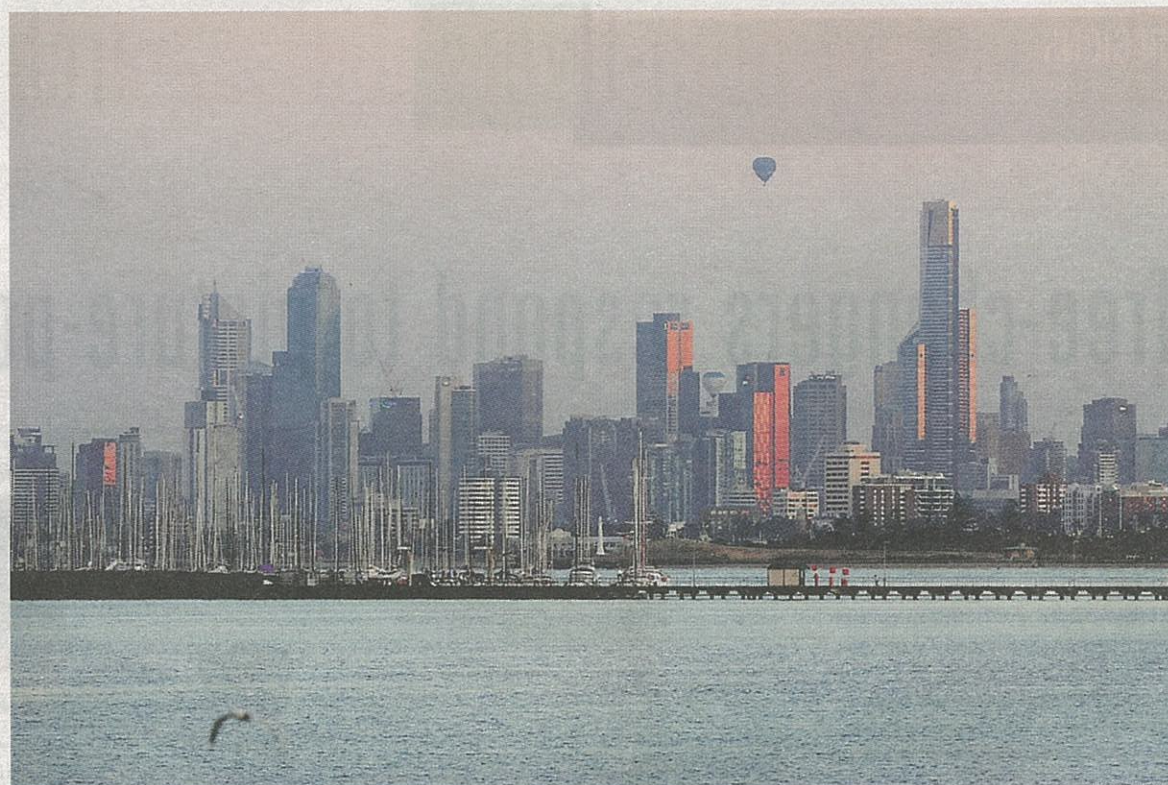
If you're buying an apartment, the factors that add value are: a good location, double-sized bedrooms, balconies, parking, natural light and storage. Factors that may reduce value include: high owners corporation fees, pools, gyms and concierge services. Buyer's advocate Paul Osborne, of Secret Agent, recommends visiting the site with the plans for the building to establish which side your intended apartment is on. He says you should work out if the unit will get morning sun, and if there are other buildings nearby that may be developed in the future.

Research

Investors and home owners should buy in the best location they can afford. People who expand their property portfolios are scrupulous about detail, even when they pay for expert advice. Margaret Lomas, of Destiny Financial Solutions, says it's becoming easier to identify areas that have growth potential. "People have a lot more information at their fingertips," she says. "You can look at population growth, at growth performances, and at the kind of infrastructure that is going in and know instantly if an area has the potential to go ahead."

Take advice

OTP contracts generally don't tie the developer to a settlement date. Mr Osborne says if the developer is promising a move-in date, you should allow an extra six to eight weeks in your planning in case the project is delayed. "OTP contracts are generally highly protective of the developer due to the large risks at stake," he says. "Get the contract



Plan A: Off the plan is now a common way of buying in Melbourne. Photos: Penny Stephens, Jessica Shapiro

checked by a solicitor prior to signing, and don't be afraid to suggest contract changes. After the initial thrill of the purchase has worn off, you will often encounter some setbacks. A contract that gives you some protection could save you from a problematic purchase."

Settlement risk

Greville Pabst, of WBP Property Group, believes settlement risk is the leading problem faced by OTP buyers. This occurs when you agree to buy a unit for, say, \$520,000 and, when the time comes to settle, your lender's valuer says the property is worth \$450,000. "We see it all the time," Mr Pabst says. Remember, no lender will give a definite finance approval for the purchase of a unit until it is finished. They will then commission an independent valuation. Any loan approval will be linked to a percentage of this valuation or to the purchase price, whichever is lesser. Seasoned OTP buyers are well aware the market can fall (or rise) between the date of purchase and settlement, and have the resources to meet any shortfall.

Finance approval

Successful investors never buy a property on impulse unless they've organised their finance. You need an "approval in principle" letter from your lender subject to the valuation at the time the building is completed. Also, take time to study how different loans work and how you should structure repayments. Offset

accounts save money, reduce tax hassles and are better than redraw home loans for investors, and are also the sensible option for most owner-occupiers. Don't overleverage yourself. Your loan is there to support your lifestyle or investment strategy, not to work against you by diminishing your standard of living.

Settling up

The settlement date for an OTP unit is based on the completion of the building, its final approval, and registration of the complex at the Titles Office to create separate titles for each of the units. Developers want their money quickly, so it's common for contracts of sale to state settlement is 14 days from registration of title. Always try to negotiate a reasonable time frame for settlement before you commit to your purchase. If you don't and are unable to settle by the deadline, you'll face penalty payments.

Credit history

People who own multiple properties know their cash flow position and pay bills and other loans on time. Mortgage Choice chief executive Michael Russell recommends setting up auto-payments out of your savings account. He says would-be borrowers should also limit the number of times they apply for finance, because loan applications generally show up on your credit file. "Lenders want to work with a sensible credit consumer and someone who lives within their means," he says.

Space and inclusions

Consider unit size. "Plans are often drawn with smaller furniture than average and do not have any room dimensions drawn," Mr Osborne says. "This can lead to a shock when it comes time to move in and your dining table won't fit." Ensure marketing plans are to scale. You also need to get inclusions and variations in writing before paying the deposit. Brett Lewis, of Five Squared Property, says variations are becoming more common. "One of the things we are seeing a lot of is including wiring for data, internet cabling to bedrooms and extra cabling for home theatre systems," he says.

Savings

"If you are prepared to buy off the plan, you can get quite a large stamp-duty saving, but some people forget about it," Mr Lewis says. In Victoria, stamp duty is calculated on the proportion of construction completed when the property is bought. That translates into big savings if you buy before construction starts. Investors also need to double-check any "indicative" depreciation schedule to ensure they get full tax deductions on the outstanding depreciation for the building and fixtures. Buyer's advocate Karin Mackay tells her clients to let the taxman pay as much towards an investment property as possible. "I'd definitely buy an apartment rather than a house," she says. "With an apartment, you can get back half the cost in tax breaks."