



Buying Off the Plan

A helpful guide for buyers

Introduction

Buying off the plan (OTP) is regarded as a speculative purchase given the often long lead times between signing a contract and completion of the property. As a result, this type of purchase requires more due diligence than a standard purchase including seeking independent legal and financial advice. This guide is by no means exhaustive and there may be other aspects that are relevant depending on your personal circumstances.

Advantages

- The purchase price is locked in at time of contract. This means you may potentially benefit from capital growth on the property during the time it is being built without associated loan costs. See *also Disadvantages below*.
- There are no holding costs during the time the property is being constructed e.g. loan interest (unless the deposit paid is borrowed).

The long lead time does create the potential for downside with OTP purchases. Here are some points to consider.

Disadvantages

- Banks generally won't commit to approving a loan application until the property is completed and valued by them. However, the developer may want the contract to be "unconditional" with a sizeable deposit paid well before that. The risk here is you are committed to the purchase without a formal loan approval.
- If the value of the property falls between contract date and pre-settlement valuation you could be required to contribute more of your own funds to make up the shortfall.
- Unforeseeable changes in bank policy during the 12/24 months construction could mean they will no longer lend the amount required e.g. in that location or for that type of development, or they will lend but with a reduced loan size.
- Changes in your personal circumstances could mean you no longer qualify for the loan amount you need at settlement. This could include having additional children or changing careers, but it can also include changes outside of your control such as illness or unemployment.

Other Considerations

Assuming a pre-approval was granted by a lender, the maximum term of that approval would be 6 months meaning you would need to reapply potentially several times before settlement. With each new application, the Bank's credit policy and assessment rules at that time will apply regardless of whether you were preapproved under an old lender policy with no changes to your circumstances in the meantime.

You will need to evidence the full deposit amount required at the time of initial application. You cannot use the reasoning that you have 12 to 24 months until settlement to save the deposit. The deposit must be in the form of liquid assets, for example, savings or equity in other property.

If you would like to discuss any of these items or if you have any questions in relation to OTP lending, please contact me.

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