Media Release – Profile Magazine

Buying Off The Plan

with Paul McHugh

A feature of modern real estate practice is for purchasers to buy a property "Off the Plan". This is where a purchaser buys a property that has not yet been constructed, such as a unit in a building not yet built or land in a sub-division development not yet constructed.

One advantage to a buyer is that, in a rising market, the buyer can secure the property at today's prices but not have to settle until months or years down the track when construction is completed. Certainly, people have made good money buying real estate off the plan and on-selling for a profit before ever having to settle. Likewise however, property markets also fall and buyers have also been forced to settle on a property which is no longer worth what they agreed to pay.

Buying off the plan can be a daunting experience but there are certain steps you can take to reduce the risks. First, do your homework on the market value of the property. Compare the purchase price with prices being achieved for other similar properties. Ask local real estate agents their opinion of the market value and achievable rental returns.

If you are obtaining finance, have a back up plan if your financier will not lend you as much as you originally expected. Financiers will only lend based on a valuation of the property by their valuer at settlement. If the valuation comes in at less than what you agreed to pay, the bank will lend you less and you will have to come up with the shortfall or provide additional security on settlement.

Ensure the plans and schedule of finishes attached to the contract have as much detail as possible. They should show the size and layout of the unit, the quality of the fixtures and fittings and the brand and model of any appliances. You may consider speaking with an Architect or builder regarding the layout of the unit, size of rooms and the quality of fixtures and fittings as shown on the plans.

You should make enquires about the developer and only buy from developers with a good reputation. If the project does not proceed, you will get your deposit back however you will not recover bank guarantee fees, finance application fees or legal costs that you have incurred.

As each developer drafts its own Sale Contract it will have its own unique features and you should have your solicitor look over the contract prior to signing.

While the above is not exhaustive, it should give you an idea of some of the additional matters you need to take into account when buying off the plan. So like any investment, do your homework, seek appropriate advice and reduce the risks.

January 2011

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