MCP Off the Plan Fact Sheet

Purchasing "**Off the Plan"** is a common entry point to the property market for First Home Buyers and Investors. Depending on the progress of the land improvements at the time you sign, you can save a significant amount in stamp duty as opposed to buying an established dwelling of the same price.

We have provided some risks you must know from a lending viewpoint as well as some general information for you to consider.

Valuation Risk

Many banks require the property to be valued either on completion or off the plan (but note most banks require a valuation no more than 3 months old). If you purchase well in advance you will be exposed to property market price movements. Banks lend on the lower of contract price or bank valuation so if prices decrease you may need to contribute more to the purchase from your own funds.

In addition Bank Valuers are bound to specific criteria when assessing market value. Often they are required to provide 3-4 sales of comparable established properties which have occurred in the last 3-6 months. Prices of other apartments sold in the development will therefore be disregarded.

Credit Risk

The credit appetite and policies of lenders change over time. As you often cannot apply for finance for off the plan purchases until 3-6 months prior to settlement there is a risk any of the following occurs:

- Your own circumstances change (e.g. you become unemployed or interest rates increase) compromising your ability to obtain finance when the time comes.
- The Bank changes their lending policy and can no longer accommodate your lending requirements (note MCP can only workshop scenarios on existing lending policy).
- Lenders can also limit their exposure to an apartment block. For example a lender may not take more than 25% of an apartment complex as security, so whilst you may meet the policy the lender can reject business due to its own exposure. This will be of particular concern if your personal circumstances restrict your lending options.

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Settlement Risk

Whilst the developer or agent may give you an estimated settlement date it is not uncommon for delays to occur. Always have a Lawyer review the Contract of Sale and Section 32 prior to signing to ensure you understand timeframes and what your obligations are if delays occurs, ensure you understand what you are buying and any potential hidden costs (e.g. Owners Corporation fees are often not concrete). Clarify the level of Stamp Duty that is applicable.

It is always wise to have contingency plans in place for Off the Plan purchasers. If you are stretching your limits and have no contingency plan available you may want to think twice.

Research and Negotiate

You should do a thorough due diligence on the developer / builder before signing. Ask as many questions as you can, which may include:

- How long have they been developing property for? Google the builder.
- Get a list of their prior projects. Take the time to view those properties and if you can ask the owners what they think about the quality of the works.
- Research the market. You often pay a premium for new property like you would for a new car. Ask yourself is the premium reasonable, you may need to research and price the inclusions.
- If the specifications are vague get the developer to clarify. Often the buyers expectations versus the finished product can be vastly different. It is hard to envision the finished product correctly if you don't ask questions.
- Don't be afraid to negotiate on the purchase price or the level of deposit.

Deposit Bonds / Bank Guarantees

A deposit bond may be accepted in lieu of a cash deposit. The major advantage of a deposit bond is you do not physically hand over a deposit and in the event the builder goes bankrupt your cash deposit is protected from the builder's creditors.

MCP can help point you in the right direction to secure a deposit bond or bank guarantee.

More Information?

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