



Off The Plan Process

Purchasing a property 'off the plan' is reasonably common in today's marketplace. However, this type of transaction typically has more moving parts than a normal purchase. Whether you are a first-timer or just wanting to refresh your understanding, this document should help familiarise you with the common elements.

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What does 'off the plan' mean?

When you buy a property off the plan, you effectively enter the contract of sale before construction of a building on the property has been completed. It generally relates to land development or building development.

The main point is that the vendor who owns the property is generally conducting development work (e.g.: developing land or building a block of units) which will result in the title of the property being changed.

Why is it different to buying an established property?

With established property, you are buying a completed product which is fully registered with the Land Titles Office.

The Steps Involved in the Process

Let's use an example:

- Let's say it is October 2016
- Mr and Mrs Taylor decide they want to buy a property off the plan for \$600k
- The property is an apartment in a development which is not expected to be completed until December 2017
- When completed, they will want to borrow \$630,000 (to cover the purchase price plus related costs)
- They can do this by using equity in an existing property to assist fund the purchase

The Steps Involved in the Process

The Do's

- DO your own due diligence on the builder/developer, ensuring they have a reputable track record
- DO get your own solicitor to run through the contract with you – off the plan contracts must have clear and comprehensive provisions regarding construction, timing, fit out, defects and practical completion
- DO keep an eye out for the completion of the property – drive past the development site every month / speak to your solicitor – ensure you get your finance ready in plenty of time. Many developments can finish well ahead of schedule – (e.g.: the dry spell is great for building)
- DO remember that investing in property is long term
- DO take your time with your pre-settlement inspection – consider taking a builder/building inspector with you

The Dont's

- DON'T assume/expect that the property will increase in value between when you sign the contract, and final settlement – many people are expecting to make large, short-term gains
- DON'T assume that you will be able to sell the property between when you sign the contract and when you have to settle your purchase
- DON'T succumb to high pressure sales tactics
- DON'T do things between exchange and settlement which will hinder your ability to get a loan approval when the property is completed

Off the Plan – How the Process Flows

Step 1

Form adviser team

Mr & Mrs Taylor to engage solicitor/tax adviser/finance adviser to discuss ownership structures, finance structures, funding the 10% deposit, taxation, the exchange process, etc.

Step 2

Finance capacity

Mr & Mrs Taylor come to see Vision to assess their borrowing capacity, which gives Mr & Mrs Taylor an indication that they can afford to borrow the money.

Note – when a property is bought off-the-plan, it is generally not possible to get unconditional approval. We can discuss this with you further. Mr & Mrs Taylor must understand that a pre-approval is not a guarantee that they will be able to get a loan when the property is completed.

Step 3

Contract analysis

Mr & Mrs Taylor ask the real estate agent for a copy of the contract, which they send to a qualified solicitor/conveyancer for review. Any issues that arise will be discussed between you and your solicitor/conveyancer.

Off the Plan – How the Process Flows

Step 4

Moving towards a decision

Three things have been done:

- Mr & Mrs Taylor have received advice from their advisers about structuring, etc.
- Mr & Mrs Taylor have a finance pre-approval in place.
- Mr & Mrs Taylor have sent the contract to their solicitor.

Step 5

Organise a deposit

Mr & Mrs Taylor have a number of options – they will need to confirm these with their solicitor:

- Pay 10% or \$60,000 – a lot of people do not like this option (especially people who don't have access to \$60k)
- Obtain a bank guarantee – you will generally need to have an existing banking relationship to get one of these
- Obtain a deposit bond

Step 6

Exchange contracts

Mr & Mrs Taylor have now entered a contract – they are now committed (subject to any cooling off period – ask your solicitor). The vendor's obligation is to get the property ready within a certain timeframe (the very last day they need to have it ready is known as the sunset clause).

Mr & Mrs Taylor's obligation is to have the funds ready for settlement when the property is completed.

Off the Plan – How the Process Flows

Step 7

The property starts being built

Mr & Mrs Taylor initially keep a close eye on the progress of the development. Sometimes the initial stages seem slow to progress however it is important that they keep in contact with the real estate agent and their solicitor to monitor this. There is no need to put too much pressure on anyone in the early days however the property could be finished early, for example, and so making sure they keep an eye on the timeline is helpful.

Step 8

Keep an eye on things

Mr & Mrs Taylor keep a close eye on the progress of the development. It is important that they keep in contact with the real estate agent and their solicitor to monitor this. If they live close to the property, it would be good to drive past and see how it is going (even talk to one of the builders on site).

Step 9

Stay 'finance smart'

Mr & Mrs Taylor have a settlement coming up and will eventually need a loan. They should avoid things which might hinder the finance approval process. Examples:

- Taking on new loans like car leases, credit cards, etc.
- Moving jobs multiple times or changing occupations or deciding to start their own business for the first time
- Spend savings – do not spend money that you had planned to contribute to the purchase

Off the Plan – How the Process Flows

Step 10

Home loan health check

Mr & Mrs Taylor should call Vision about 3-4 months before the expected completion of the property. This gives them plenty of time to sort through any issues that may arise. Vision will talk with Mr & Mrs Taylor and their solicitor to determine whether it is a good time to commence the process of unconditional approval (in complex situations, it is a good idea to start this early).

Step 11

Building has finished

The developer has fulfilled their part of the deal – the property is ready (subject to inspections that Mr & Mrs Taylor may perform with the assistance of a qualified inspector). When the property is ready, the developer's solicitor generally lets all the solicitors acting for the purchasers know that the property is ready and that strata title is being submitted to the Land Titles Office for registration.

Step 12

Notice of registration

Mr & Mrs Taylor (via their solicitor) should receive Notification of Registration. The original Contract for Sale should have noted how many days after this date that settlement needs to occur. Mr & Mrs Taylor now have a deadline for settlement.

If they miss the deadline, penalty interest starts to be charged (which is expensive). If they delay settlement, the developer may be in a position where they can terminate the contract and demand 10% be paid to them by Mr & Mrs Taylor.

Off the Plan – How the Process Flows

Step 13

Unconditional approval

Vision will look after Mr & Mrs Taylor through the unconditional approval process.

Step 14

Settlement

The lender lends the money.
The developer gets their money.
Mr & Mrs Taylor get the keys to their new investment property.
Everyone is happy!

Step 15

Investment property ownership

Mr & Mrs Taylor now own an investment property and will need to consider all the things relevant to a landlord.
See your local [Real Estate Institute](#) for more information.