

## Off-Plan Investing

Off-plan investing is defined as buying property from developers before the building is completed, sometimes well before the foundations are laid.

This method of buying has been utilized by a large percentage of property investors over recent years to seriously increase their net worth through property investment - so what are the benefits and what are the risks in doing so.

### Benefits of Off-Plan Investing:

- Developers will often offer a genuine discount in return for bulk purchase of units in a development, particularly if it is early on. They do this as development finance is easier to obtain and cheaper if the development is partially or completely pre-sold.
- These discounts provide you, the investor, with a cushion of profit in case of any problems. This additional profit can be substantial - for example if you have put down a 25% deposit and the discount was a true 15% off, then the property is worth 17.6% more than the price you paid - that means you have already shown a paper profit of 60% of your deposit. For example:

Take a discounted \$170,000 selling price of a \$200,000 property. Your deposit 25% of \$170,000 = \$42,500 the equity in the property = \$200,000-\$170,000+\$42,500=\$72,500 - a 70% return on your \$42,500!

When completion comes and you put down a further deposit to bring your total deposit to 50%, even if prices have not risen any further you still have equity of \$200,000 - \$85,000 = \$115,000 a 35% return on your deposit! If prices increase even just a little then your profit will be substantially greater due to your geared investment.

- No interest to pay whilst the building takes place, yet if prices are rising you receive this capital gain.
- With deposits of 25% at purchase on off-plan developments you have less cash tied up than if you had bought a completed development.
- If prices fall you have a safety net represented by the amount of the property discount - people buying on the open market would have NO SAFETY NET! A 10% discount would effectively provide you with a 10% market-price-fall insurance policy!
- You can sell on to a new owner before or just after completion to take out your capital and profit.

The benefits of off-plan investing, taking a long term view, far outweigh the risks; however if you are taking a short term view and intend to buy and sell very quickly then be careful and keep a close watch on the local prices in the area to minimize your risk.

The critical success factors in succeeding in off-plan investing are:

- Obtain genuine discounts or buy in property hot spots.
- Buy in a rising market ideally to further extend your equity and hence safety margin.
- Buy in good rental locations to ensure any mortgage interest can be covered by rental income.
- Buy in to properly marketed developments to ensure high occupancy rates and thus high investment yields.