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Property Investment Advice for Professionals

Where does Off Plan Property Investment commonly go wrong?

Off plan property is commonly sold as having a genuine discount. This means that it is advertised as being worth more than you are paying for it. If we assume that all discounts on property are genuine how can you still get it so wrong?

Key Areas for all Property Investors

Affordability, Risk, Objective, Advice, Planning

If you were to talk to a Regulated Financial Advisor regarding an equity (shares) investment (including property funds) he would be required by law to establish that your investment was affordable and met your own risk profile and financial objectives. Property Investment Clubs tend to focus on one objective only, acquiring more property (or in their terms, selling more property!).

Affordability is essential for any investment. You must be able to afford not only the initial lump sum used to purchase a property but also consequent costs of property investment; mortgage payments, insurances, management fees etc. To be able to afford a cost it is important that a likely cost can be measured or estimated. Many people will only ever work with the minimum deposit possible, a figure usually supplied by the Property Investment Club! So if you plan for a very small deposit you may feel comfortable committing to two maybe three purchases. As Off Plan Property purchases have been invariably sold 12-24 months ahead of completion the figures that your investment were based on do not always meet the prediction, if you are required to put down a greater deposit than you can afford you risk losing all of your deposit.

The risk of investment should be commensurate to your risk profile not the salesman's. By first assessing what is affordable you can then establish risk. Ask yourself whether the reward you are expecting is worth the risk? Remember that you are risking your deposit on any off plan investment if the figures don't add up. Who presents you with these figures, yourself, the salesman? What can affect the value of your investment? Mortgage rates, their availability and criteria, the property market, the rental market, environmental conditions, location and area demographics, legal change, your own employment status, earnings and future availability of income....the list is extensive but all of these factors are variable so effectively can change the status of your investment massively.

Does off plan suit your investment objective in the first place? Many investors are, for example, planning for retirement. Off plan investment tends to concentrate on increasing property wealth through the acquisition of equity rich property cheaply, with the attraction of recycling your original deposit through refinancing to buy more and more property. This can indeed work leaving you owning millions in terms of property value. But they are all mortgaged and consequently need to be sold ultimately to release the 'profit' or constantly refinanced in order to release equity – but remember there is a finite point when properties can no longer be refinanced, mortgage conditions may have changed or you may have borrowed to the limit. If you try and sell you may trigger a large capital gains tax bill, or you may not realise enough equity to maintain the lifestyle you have been used to. Conversely, if you are planning for short term capital growth through buying and selling quickly, have you got the available capital for purchase if the figures don't add up? Nearly all buy to let mortgages assess loan size as a multiplication of rental income. If the rental figures fall short of expectations the mortgage loan size can reduce drastically, if they do add up mortgage criteria can change with the movement of interest rates. In order to release a large enough mortgage to secure purchase you may be forced to accept terms with a redemption penalty or an unfavourable rate. You may not now be able to sell that property.

It is a simple statement to say, **get the right advice but remember property investment is unregulated.** You are responsible for your own protection, if a deal sounds too good to be true it might not be! But if you don't get independent qualified advice before spending thousands, who really is to blame?

A business never plans to fail, but many fail to plan if you are spending thousands on an investment that requires you to instruct estate agents, deal with financial decisions, manage accounts, appoint solicitors, evict tenants etc. you must plan – and that means knowing your plan and not guessing.

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