



## **What is off plan?**

Off plan investing is defined as buying property from developers before the building is completed. If you have heard of off plan, it is probably because, this method of buying has been utilised 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 presold.
- These discounts provide you, the investor, with a cushion of equity in case of any problems.. For example: Take a discounted £85,000 selling price of a £100,000 property. Your deposit 10% of £85,000 = £8,500, the equity in the property = £100,000-£85,000+£8,500=£23,500 a nice return on your £8,500!
- No interest to pay whilst the building takes place, yet if prices are rising you receive this capital gain.
- 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 may be able to sell on to a buy-to-live owner later on before or just after completion to take out your capital and profit.
- As off plan involves new properties, furnishing, maintenance and presentation costs are proportionately low in the initial period.

### **Risks of Off-Plan Investing:**

- If you receive a 10% discount on a property and you have put in 10% of the property price on exchange and prices fall say 15% then you will have lost some of your deposit - in addition you will still need to provide a full 15% deposit of the new market value to the bank upon completion. To protect yourself from this situation ensure you buy in strong price-gain areas with genuine discounts and where there is strong rental demand
- If you buy in a large development and a lot of it is bought by investors then there is the possibility of a period of over-supply of properties when completion takes place. Keep some money aside for this possible void period and ensure you work on finding some tenants as well as using local letting agents for this more difficult period.
- If you buy direct from a developer and receive no discount by paying full price then you are fully exposed to any price reductions - don't do it!
- Many firms selling off plan investments have no experience in the mortgage market; you must ensure finance is available on a property before committing to purchase. If you are being 'sold' student accommodation can you get finance on a buy to let basis or just commercial finance?

**The benefits of off-plan investing, taking a long term view can 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 minimise 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 rent shortfalls will not eat into your equity and reduce your portfolio growth ability.
- Try to buy discounted property with a short completion date, less than 6 months. This provides you the opportunity to source finance before you exchange on a property, and minimises some of the effect of the natural property market.
- Pre-advertise your property for sale or letting before you complete.
- CHOOSE YOUR ADVISERS WISELY