INVESTING IN OFF-PLAN HOUSE AND LAND PACKAGES

GUIDE

A Resource For First Home Buyers and Investors

THE WALL
Property Services

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1. Introduction

Australia's shifting demographics and evolving economic conditions have highlighted the critical need for a fresh approach to property acquisition, whether as a first-time home buyer or investor. With increasing demand for land, many Australians are now considering the advantages of purchasing off-plan properties. In contrast, the traditional approach of buying established homes is losing favor due to hidden costs and maintenance issues, especially considering economic unpredictability and fluctuating interest rates.

Many Australians are seeking more flexible and cost-effective alternatives to secure their desired properties and achieve peace of mind. This shift in perspective has led to a rising interest in off-plan house and land packages, dual occupancy options, apartments, townhouses, and duplexes.

Off-plan properties offer a more gratifying and sustainable model that can be funded through savings, equity, or Self-Managed Super Funds (SMSFs). This approach empowers buyers to attain financial independence and security by capitalizing on capital growth for first home buyers and generating passive income for investors, potentially accompanied by tax benefits.

Our guidebook delves into the nuances of off-plan properties, providing comprehensive insights into their benefits and risks. It equips you with the knowledge needed to make well-informed decisions regarding these properties, including understanding the short and long-term advantages, risk assessment, mitigation strategies, evaluation criteria, and financing options for your off-plan package.

2. Understanding Off-Plan Property Market

Diving into the world of investing in off-plan properties in Australia can feel like a daunting task. However, with the proper approach, it quickly becomes more understandable and manageable. Unlike properties listed on the open market, these off-plan properties are not readily available to the public. Instead, they are typically sold through private channels such as word of mouth, personal networks, or real estate agents who have exclusive access to them.

These off-plan properties can be discovered at various stages of development, ranging from being in the planning phase, under construction, or already completed. It is worth noting that the latter two stages offer a change in property value compared to off-plan properties. This means that investors have the opportunity to potentially benefit from fluctuations in property prices.

To find a good investment opportunity, investors should:

- Build a strong network of contacts, including:
  - Real estate agents
  - Property developers
  - Other investors
- Conduct thorough research on:
  - The property's history
  - The location
  - Potential risks
- Develop a solid investment strategy by:
  - Setting investment goals
  - Identifying the target market
  - Determining the budget and financing options

3. Investment Benefits

01 | SHORT-TERM BENEFITS

Investors have a unique opportunity to buy properties below market value during the pre-construction phase, benefiting from developer discounts and government grants, including stamp duty exemptions.

For instance, consider our client Sean, who bought a house and land package for $774,456 under separate land and building contracts. The land was priced at $300,000, and the building costs amounted to $474,456.

Stamp duty is calculated solely on the land price, resulting in a fee of $8,925, based on a 2.9% rate for newly constructed homes in Queensland priced at $300,000.

Investors also benefit from capital growth as the property appreciates during the construction phase. Once completed, the property's market value is expected to rise, offering potential returns on their investment.

According to the Queensland Government, land values in Brisbane have steadily increased from 6.8% in 2019 to 11.9% in 2023, and this upward trend is anticipated to persist.

Investing in off-plan properties can provide positive cash flow, equity gains, market value appreciation, and tax breaks.

02 | LONG-TERM BENEFITS

Investors can benefit from tax advantages such as depreciation, maintenance costs, property management fees, and insurance expenses, which can reduce their taxable income.

Sean purchased a house and land package in Logan Reserve, renting it out for $580 per week. Initially worried about the impact on his taxable income, which included his $120,000 salary and $30,160 rental income, totalling $150,160, Sean found relief through various deductions.

Deductions Breakdown:

- Depreciation: $21,000
- Bank interest: $27,600
- Management fees: $3,900
- Maintenance, rates, insurance: $3,500

Total deductions: $56,000

Subtracting these from his total income ($150,160 - $56,000), Sean's taxable income dropped to $94,160, boosting his cash flow significantly.

4. Risks and Mitigation Plan: Investing in Off-Plan Properties

Risks of Investment

DELAYS IN CONSTRUCTION

Often sold before they are built, which means there is a risk of delays in construction. This can result in a longer wait time for the property to be completed.

CHANGES IN MARKET CONDITIONS

The property market can be unpredictable, and there is a risk that the value of the property may decrease before it is completed.

QUALITY ISSUES

There is a risk that the quality of the finished property may not meet expectations.

HIDDEN COSTS

There may be hidden costs associated with the properties, such as strata fees or maintenance costs.

DEVELOPER BANKRUPTCY

There is a risk that the developer may go bankrupt before the property is completed.

CHANGES IN GOVERNMENT REGULATIONS

Changes in zoning laws or building codes can impact the value of the property.

Mitigation Strategy

PENALTIES FOR DELAYS

Ensure the contract with the developer includes clauses that specify the consequences of delays, such as penalties or compensation and extended settlement periods.

MONITOR AND ADJUST YOUR STRATEGY

Monitor the market conditions and be prepared to adjust your investment strategy accordingly (renegotiate contract terms).

SELECT RELIABLE DEVELOPERS

Do your research and select developers with a proven track record of delivering projects as agreed.

SEEK LEGAL ADVICE

It is always a good idea to seek legal advice and budget for additional costs such as stamp duty, legal fees, and strata.

INCLUDE CONTRACT ESSENTIALS

Include sunset clauses, bank guarantee, and a disclosure statement of the developer's financial position.

REVIEW ZONING, CODES, REGULATIONS

Research any changes in zoning laws, building codes, and planning regulations that could impact the project.

5. How to Identify and Evaluate Off-Plan Properties for Investment

IDENTIFY & EVALUATE

Firstly, it is important to research the developer and their track record in delivering quality projects. This can be done by looking at their previous developments and reading reviews from previous buyers.

Secondly, it is crucial to understand the location and the surrounding amenities, such as schools, public transport, and shopping centres.

Thirdly, carefully review the plans and specifications of the property to ensure that it meets your needs and expectations.

Finally, it is recommended to seek professional advice from a lawyer or a licensed conveyancer/solicitor to ensure that the contract terms are fair and reasonable.

When it comes to identifying and evaluating properties, it's important to have a reliable real estate agent as an assessor. These types of properties can be a great investment opportunity, but they also come with risks.

A good agent will:

- Guide you through the process, ensuring informed decisions.
- Provide developer, location, and resale value insights.
- Helps decipher contract terms and potential risks.
- Boosts confidence in off-plan investments with their investment.

With a knowledgeable agent by your side, investing in an off-plan property can be a confident and informed decision.

6. Financing Your Off-Plan Property Investment

01 | SAVINGS

We need to determine the amount of savings that can be allocated towards the purchase (>10%) of the property value as a first deposit combined with a loan.

02 | EQUITY

One way to use equity is to take out a home equity loan or line of credit. This allows you to borrow against the equity in your existing property to finance the purchase of another property.

Another way is to refinance your existing mortgage and take out a larger loan. This can provide you with the funds you need to purchase another property that comes with lower interest rates.

03 | SELF MANAGE SUPER FUND (SMSF)

The funds can be used to purchase a property, either outright or with a loan. The property must be held in the name of the SMSF and all expenses related to the property must be paid from the SMSF. Any rental income received from the property must also be paid into the SMSF. It is recommended to seek professional advice from a financial advisor or accountant before investing in property using SMSF.

7. Conclusion

Investing in off-plan properties can offer a range of rewards for investors. Not only could provide a new way of retirement, but it also offers the opportunity to use savings, equity, and superannuation to finance the investment. With careful research and planning, investors can mitigate the risks associated with off-plan properties and enjoy the benefits of long-term capital growth and rental income.

One of the most significant advantages of investing in off-plan properties is the potential for long-term capital growth. By purchasing a property before it is completed, investors can often secure a lower price than if they were to buy a completed property. As the property is built and the surrounding area develops, the property value can increase significantly, providing a solid return on investment.

Another benefit of investing in off-plan properties is the opportunity to generate rental income. As the property is completed, investors can rent it out to tenants, providing a steady income stream. This can be particularly beneficial for those looking to supplement their retirement income or build a property portfolio for future financial security.

While there are risks associated with investing in off-plan properties, such as delays in construction or changes in the property market, there are strategies that investors can use to mitigate these risks. By conducting thorough research into the developer and the local property market, investors can make informed decisions and reduce the likelihood of unexpected issues arising. Also, work with an experienced agent or assessor to ensure that you are making the right investment decisions. This would help you avoid common mistakes and ensure you are investing in properties that are likely to appreciate over time.

Visit our website to explore a range of off-plan and completed developments available for investment across Australia.

THE WALL

Property Services

Building Your Future, *One* Wall at a Time.

+61 478 126 097

boris@thewallpropertyservices.com.au

www.thewallpropertyservices.com.au