

## **RISKS OF BUYING 'OFF-THE-PLAN' IN PERTH, WESTERN AUSTRALIA**

*Zana van de Graaf is a Perth buyer's agent who runs Property Buyers Services (<http://www.buyingpropertyperth.com>). Here are some of Zana's recommendations to her clients on how to minimize the risks of buying off-the-plan property in Perth.*

When you are buying off-the-plan property in Perth you're entering into a contract to purchase a property before a title is created and the building is constructed. There are five main risks attached to your project.

### **RISK NO 1: MARKET VOLATILITY**

You are gambling on the future value of a property. It's impossible to predict whether the price you're paying today will reflect the real market value at the time of the settlement. If prices drop after you've signed the contract, you're still locked into paying the amount previously agreed.

Reduce your risks by doing the following:

1. Don't buy an off-the plan property in Perth in a falling market unless this property has some unique features or such a good location that you don't want to miss out.
2. If you're buying off-the-plan in Perth during a market downturn, make sure that you maximize the land value component. If the land component is less than 50%, you'll most probably end up with a negative equity.
3. Why is it so important to have a good proportion of the land value? Simply because land appreciates in value and buildings depreciate. When the markets are unstable, the prevailing land component in the value of your property can help you minimize your losses. Calculate your land value component before you take a plunge.

### **RISK NO 2: PARTNERING WITH THE DEVELOPER**

When buying off-the-plan in Perth, you're buying from the developer and entering into a partnership with them via a legally binding contract. If your partner is not reputable and has no track record, they might not be able to finish the building. They can sometimes deliver lower quality of finishing or delay the completion. In the worst possible scenario the developer can even go through liquidation which stalls the project and ties up your deposit.

Reduce your risks by researching the developer:

1. Ensure that your Perth developer/builder has a good reputation, is trustworthy and financially stable. Research the developer's track record and make a physical inspection of other buildings the builder has completed. Talk to the owners who in the past have purchased the apartments from the same developer. What are their experiences?
2. Check that the contract requires the builder to have adequate insurance. Simply ask to see a copy of the builder's insurance policy.
3. Ensure your Perth builder is covered by a reputable insurance company. Very important: if the insurer were to become insolvent, liquidated or suspended the Perth builder may not be in a position to repair any deficiencies and you'll end up paying for it.
4. Buying twelve to eighteen months before completion increases the risks of negative market forces or the developer's liquidity. However, if you buying too late into the development, the best apartments could already be sold. Check the location of the apartments remaining and chose carefully.

### **RISK NO 3: THE QUALITY OF CONSTRUCTION LOWER THAN EXPECTED**

Sometimes, the fixtures and fittings are different from what the buyer imagined. When buying off-the-plan in Perth or in any other place, the buyer has no guarantee that the property will be constructed to a certain level of quality. A lower quality of the fixtures and fittings may have a negative impact on the value of the property once finished.

Reduce your risks by following this checklist:

1. Make sure that a detailed floor plan showing internal walls and dimensions, plus a very detailed schedule of surface finishes should be attached to the contract.
2. Make sure that you know the brand names of major products to be fitted into your unit and the cost of upgrading those fixtures and that this is included in the contract.
3. Find out the exact location of the unit you are buying. You might not want to be close to noisy common areas like lifts or entry hall, straight onto the pool etc.
4. The common areas are important: their standard may set the future price platform. Common property fixtures and fittings should be defined. The plans and specifications of finishing of common areas should also be attached to the contract.
5. If the developer is promising e.g. river views, the description of a proposed major feature such as 'river views' must be added to the contract as a vendor warranty.
6. If the completed property does not correspond to the concept as represented to the buyer, the buyer must be entitled to rescind (terminate) the contract and recover the deposit paid.
7. Beware; many developers will refuse to add such a provision to the contract.
8. As a protection against poor quality of finishing, it pays to have a good lawyer check over the contract and add this provision.

### **RISK NO 4: VARIATION TO THE PRICE AND DELAYS**

The contract may allow the Perth developer to increase the sale price in the contract because of unexpected increase in building costs. Where the developer exercises this clause and seeks an increase in the sale price, the buyer can either accept the increase in the price or demand that the contract comes to an end. The deposit will be returned to the buyer in case they reject the price increase.

Reduce your risks by checking two main contract clauses:

1. **Sunset clause:** The sunset clause stipulates the end of your contractual agreement allowing the buyer or the developer to cancel if the builder doesn't complete on time or alters the plans. If settlement can't occur at the time the sunset clause expires, either party has the right to terminate the contract and any deposit moneys (plus interest) will be returned. Make sure that the sunset clause is explained to you, especially if the building is a high-rise.
2. **Viability clause:** The contract will often have a viability clause to protect the developer against the increase of construction costs. The developer then passes the notice of a price change to the Perth buyer. When the original 'fixed price' is increased, the buyer's deposit, if they want to pull out, will be returned to the buyer in full. Although rarely exercised, this clause, same as sunset clause is a cause of many court cases. To protect yourself, ask a solicitor to demand from the developer to waive the viability clause.

## **RISK NO 5: FINANCIALS**

This is the last but certainly not the least risk. Any changes in your income and financial commitments may adversely affect your ability to be able to settle on your Perth off-the-plan purchase. Very often, once the property has been completed, you'll be given only two to three weeks to settle on the property. If you can't settle, you can't withdraw from the contract. The contract for buying off-the-plan is not subject to finance!

Reduce your financial risks by:

1. Don't be too relaxed about your finances. Once you know that the building is nearing completion, talk to your lender or your mortgage broker and start preparations for a final approval. Very often, the construction in Perth is delayed, but it can also happen that the construction is ahead of schedule. Be prepared for the unforeseen.
2. The final bank valuation may be lower than the contract price, meaning you may need to refinance existing arrangements. Make sure that you have a contingency plan in case you need to refinance your off-the-plan investment in Perth.
3. A negative change in your personal circumstances will mean that you'd need to resell before the settlement. This is the bitterest pill to swallow. When you are reselling in Western Australia you are still liable to pay a stamp duty, so is your purchaser.
4. If you are buying an off-the-plan investment property in Perth of \$500k which is a small two bedroom one bathroom unit close to CBD, you'd be paying stamp duty on a property that you'll never own a whopping \$18,000. Plus, you'll need to pay a real estate agent to sell it with the minimum loss or possibly with a profit to mitigate some of your losses. There are also the conveyancing fees and some other costs you should be aware of
5. All costs should be outlined to you during the buying process. It may be wise to consult a solicitor to ensure that the contract you are signing is sound and that you know your rights and responsibilities when buying off-the-plan in Perth. Most importantly, don't go into any off-the-plan purchase in Perth without a proper understanding of your own finances and your borrowing capacity.

*For more general information and free advice contact:*

OFFICE OF FAIR TRADING tel: 13 32 20, or REIWA tel: 1300 304 064

*Of course this article is about the risks, but there are some positive points, too. For the assessment of the specific 'off-the-plan' opportunities in Perth, contact Zana van de Graaf from Property Buyers Services through her webpage <http://www.buyingpropertyperth.com>*