

# Off-Plan Property Guide





# CONTENTS

01

What is off-plan property?

02

The advantages of buying off-plan

03

The disadvantages of buying off-plan

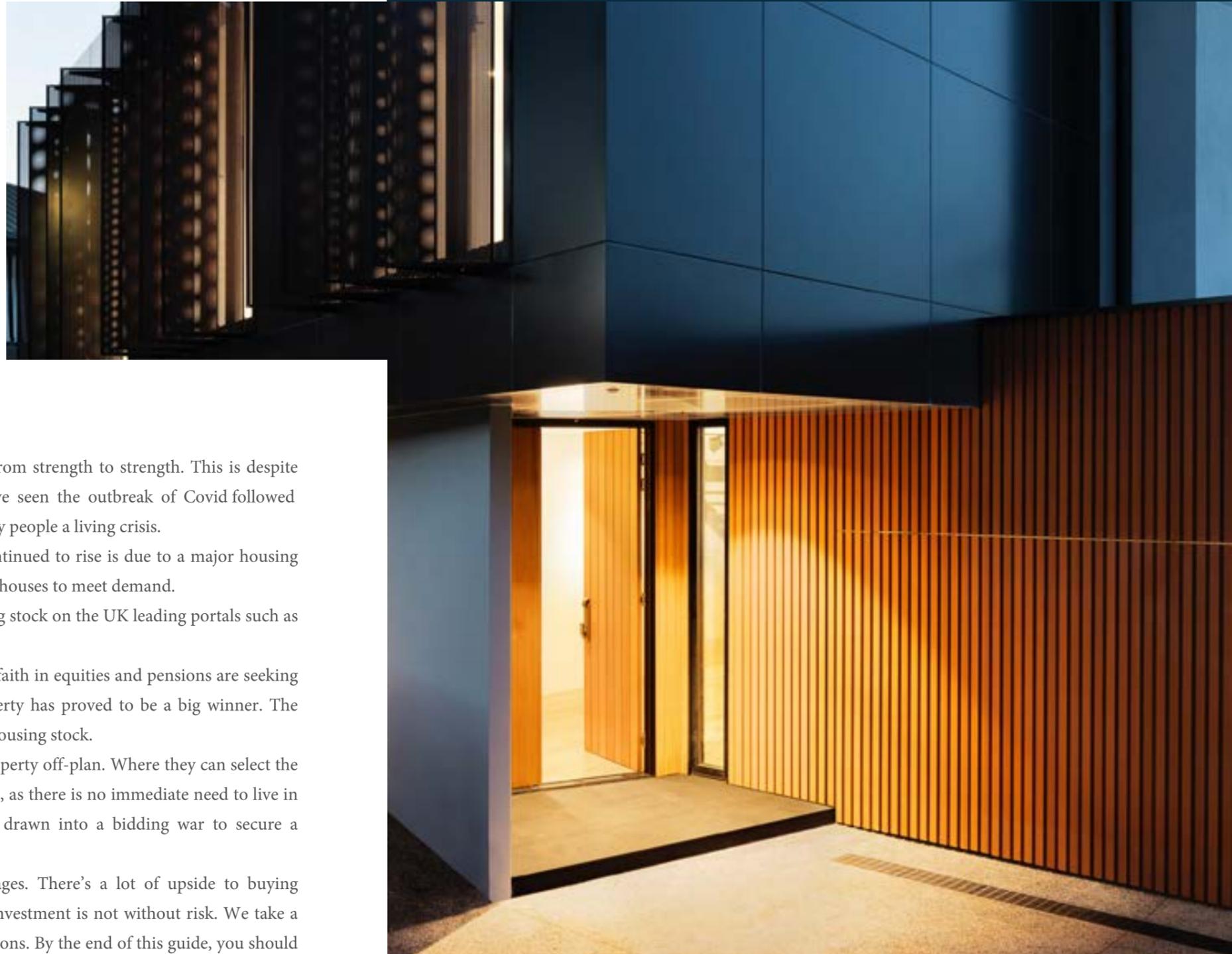
04

Key questions to ask when buying off-plan

05

Should I invest in off-plan property?

# Welcome



In recent years the UK property market has gone from strength to strength. This is despite some wider concerns about the economy. We have seen the outbreak of Covid followed by inflationary concerns which have created for many people a living crisis.

One of the reasons the UK property market has continued to rise is due to a major housing shortage in the UK. Put simply there are not enough houses to meet demand.

Consequently, we have seen lows in available housing stock on the UK leading portals such as Rightmove, Zoopla and OnTheMarket.

Another trend is that many investors who have lost faith in equities and pensions are seeking alternative avenues to fund their retirement. Property has proved to be a big winner. The buy-to-let market now accounts for 20% of the UK housing stock.

Many buy-to-let investors are opting to invest in property off-plan. Where they can select the right property at the right price, in the right location, as there is no immediate need to live in it. This contrasts with residential buyers who are drawn into a bidding war to secure a property to house themselves and their families.

Buying off-plan property certainly has its advantages. There's a lot of upside to buying property in the construction phase. However, this investment is not without risk. We take a look at this type of property and assess its pros and cons. By the end of this guide, you should have a clear picture of whether buying off-plan is right for you.

# What is off-plan property?

Off-plan property means purchasing a house or a flat while it's still under construction. Within this area, there is a wide range of scenarios. It could mean buying the property while it is still in its design and planning phase. Alternatively, you could be looking at a near-completed project, with only the final touches such as carpets and fittings to add.

The risks and returns can vary depending on how far the project is from completion. Typically the largest discounts are at the design and planning stage.



# The advantages of buying off-plan

There are several advantages to buying off-plan property. The biggest advantage is you can secure a discounted rate and this allows you to generate wealth. You can also benefit from new build warranties as well as potentially having a say in the fixtures and fittings.

## 1. Off-plan property is sold at a discounted rate

A developer is often willing to accept a lower offer in return for a guaranteed buyer at the end of the project. This helps the developer, as it gives them confidence that they can pay back any finance that they've taken out on time. This prevents late payment charges from the bank or finance house.

As a result, the earlier you commit to buying off-plan, the bigger the discount you're likely to obtain. With some developers, this saving can be very attractive. As an investor, securing a discount can help you in several ways.

### Lower mortgage

If you're looking to let your property out, a lower purchasing price will result in a lower mortgage, which will increase your bottom line. You also can buy several units from the developer. This has additional advantages, in that you could secure an even bigger discount, along with the advantage of having your investments in one place. This adds to the convenience, especially if you're involved in the day-to-day management side.

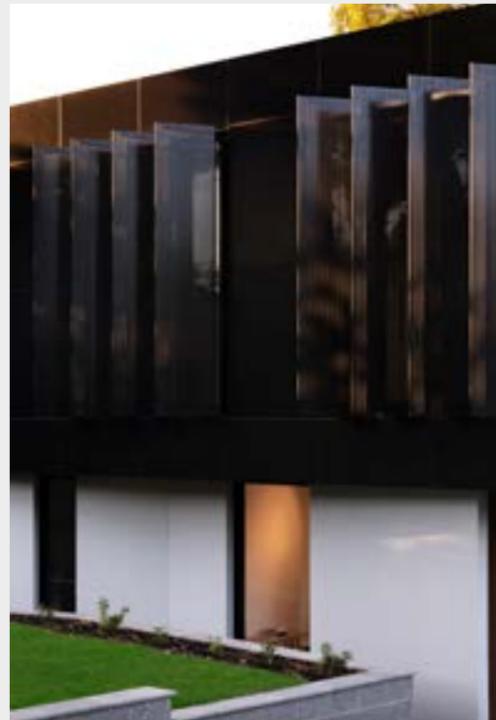
### Self-financing portfolio

Securing a discount means that when the property completes you'll have a lot of equity in the property. This means you can re-mortgage at a later stage and take out your equity and put it towards the deposit of an additional property. This has been a tried and tested strategy for several property investors, who have used this model to generate a self-financing portfolio. So, if you're an experienced investor interested in buying off-plan, you'll usually want to buy the property as early as possible when the discounts are higher so you can maximise your investment return.

### Better flipping options

If you are planning on flipping the property (selling on completion), then putting your deposit down a couple of years in advance will give you the benefits of growth in the market, over and above your initial discount.

Manchester, for example, has seen property prices go up by an average of 15% in the last two years. A flipping strategy can give investors the benefit of realising profit without the hassle of sourcing a tenant and dealing with any upkeep issues.



## 2. You can choose your own fittings

Another benefit of buying off-plan is that you often get the opportunity to influence the look and feel inside the property, by choosing your fixtures, fittings and finishes. As a landlord, you would typically want more neutral designs to make your property attractive to a wider range of tenants.

You should select finishes which are easy to maintain. This will save you money in the longer term as there is less work to be done between a change of tenants. Perhaps more attractively, there is less work needed compared to buying an existing property, saving you time in the process. If you decide to invest in a furniture pack for your investment property, then it will create a boutique feel. This is a great strategy for maximising your investment yield.

## 3. Protection for when things go wrong

Buying an off-plan should give you some added protection compared to purchasing an older property. At least you know the boiler will work, the roof is new and the property complies with all regulatory requirements. This means your property is ready to be leased out.

More importantly, you'll have a new build warranty which covers you for any potential problems, saving you money and giving you peace of mind.

Your warranty is split into two periods. During the first two years after completion, any issues with the property (such as leaky windows or ill-fitting doors), your builder is obliged to come and make repairs to their original work. Furthermore, Esper Wealth has set up a specialist Aftercare division which will act as your point of contact for the first 12 months after completion. Aftercare is our commitment to you. Our team will be on hand to deal with any issues you have with your new property.

During the second, structural warranty period, the builder is only responsible for major problems with the property. This second warranty period lasts for an additional eight years, giving you ten years of protection in total.

If you're selling the property once it's completed, this protection is a great selling point, as your warranty is transferred to the new buyer.

With off-plan property you can sometimes have a say in the fixtures and fitting.



# The disadvantages of buying an off-plan

Like all investments, buying property off-plan has its risks. Below we have enclosed the risks and inconveniences of investing in this type of property.

## 1. The property market is not guaranteed

Whilst the UK property market has done exceptionally well for over a decade, you can never be entirely sure that the market will continue to rise. Should there be a fall in the property market you are still committed to buying.

## 2. The development could be delayed or have issues

Another risk you need to consider is that the project could take longer than anticipated. This is very common and is only normal due to the complexities of construction. With this in mind, it is prudent to wait until close to completion before searching for a tenant. There is also a risk that the development may fail. So it is important that when investing in off-plan developments you do your due diligence.

As an investment company, we have a stringent vetting process for all developers we work with. All the same, we have composed a list of important questions to ask when buying property off-plan. These questions are included in another section of this guide.



## 3. You might be denied a mortgage

There is a risk for investors that you might not get a mortgage. Your circumstances may change between purchase and completion, or the market could change, meaning that lenders will lend to a different set of criteria. Therefore, even if you obtained a decision in principle, this doesn't guarantee you'll receive the same offer when the development comes to completion. This is an important point to consider as in the exchange of contracts you are legally obligated to go through with the purchase. Because of this, it is wise to make sure you borrow prudently to avoid these concerns.

However, if your circumstances do change for the worse, there are several specialist lenders who can help. At Esper Wealth we can put you in front of an independent mortgage specialist before reservation. This is designed to help you understand any mortgage contingencies.

# Key questions to ask when buying off-plan

## 1. What happens if the developer goes bust?

When you buy property off-plan you are investing in a property which is yet to be built. This involves risk. You should therefore do some research on the developer to gain an understanding of the financial strength of the developer and the integrity of its directors. We recommend looking into the developer's performance record including any delayed projects.

## 2. What happens if the value of the property falls after exchange?

This question is particularly important if you are purchasing through a mortgage, as it could affect your mortgage offer. So it is important to be clear.

## 3. Can I see the planning consent?

When buying an off-plan property, you need to ensure that the developer has planning consent. Several developers sell off-plan without this consent in place. Failure to have planning consent in place can result in lengthy delays; it could even jeopardise the viability of the project.

## 4. Can I buy the freehold?

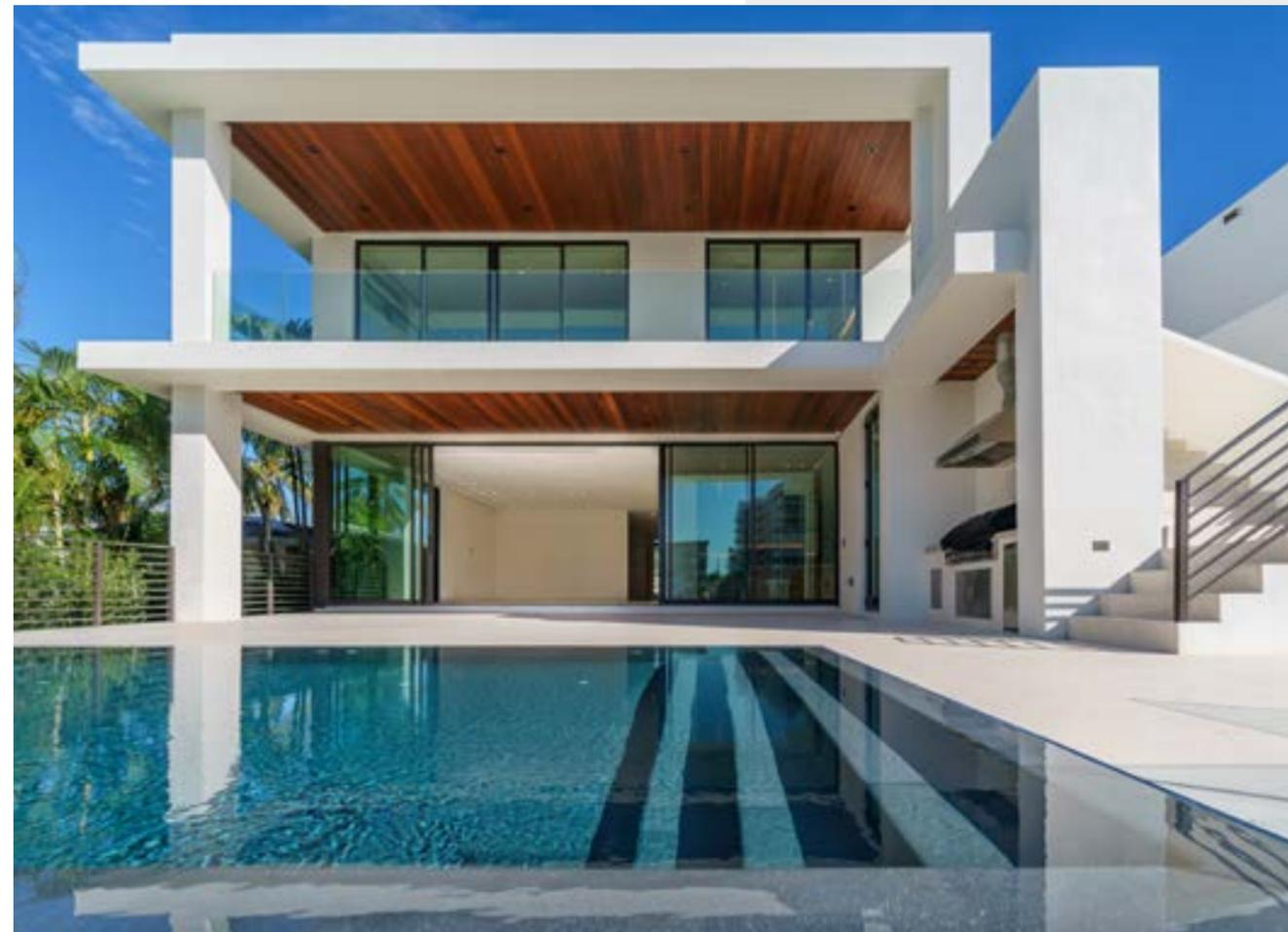
If you are buying a stand-alone house it must be sold as freehold, not leasehold. A leasehold property is for apartments only.

## 5. Can I see the lease?

When buying a leasehold property ask your solicitor to review the lease. Important considerations include the length of the lease and property charges.

A leasehold will mean that at the end of the term the property will revert to the freeholder unless the lease is extended. Therefore the length of the lease will determine the value of the property. It is wise to ensure that you have at least 90 years left on the lease before agreeing to purchase.

When buying a leasehold property you are likely going to have to pay ground rent and service charges. You can access a guide to this in our downloads section. When buying for a buy-to-let purpose it is important to look into these charges as they can reduce your net yield.



## 6. Are there any estate management charges?

There are several new build estates are being privately managed. This means the property owner will need to pay communal costs to maintain shared spaces. Read up on how this can cause problems for owners of these estates.

## 7. What is included in the price?

It is important to find out exactly what is included in the price. Sometimes you may need to pay extra for fixtures and fittings. When buying an apartment in a city it is unlikely that you will receive a parking space. Usually, parking spaces have limited availability and cost extra, so it is advisable to ask about this. Quite often when buying new build property you can get extra fittings included in the price. Often this includes white goods, and sometimes a furniture pack can be negotiated within the price.

## 8. When can I see the property?

When buying off-plan you'll want to know that your property is finished to a high standard. It is recommended you complete a snagging list before taking ownership. If your property has been arranged by a reputable agent they will oversee this process for you. At Esper Wealth we have a dedicated aftercare team who will oversee this for you.

## 9. When will the development be completed?

When buying off-plan it could be a number of years before your property is ready for completion. This offers both advantages and disadvantages. The benefit of a long future completion date is that your property is likely to appreciate significantly before completion. However, the drawback is that you are unlikely to receive income whilst you wait.

## 10. Am I tied to a solicitor?

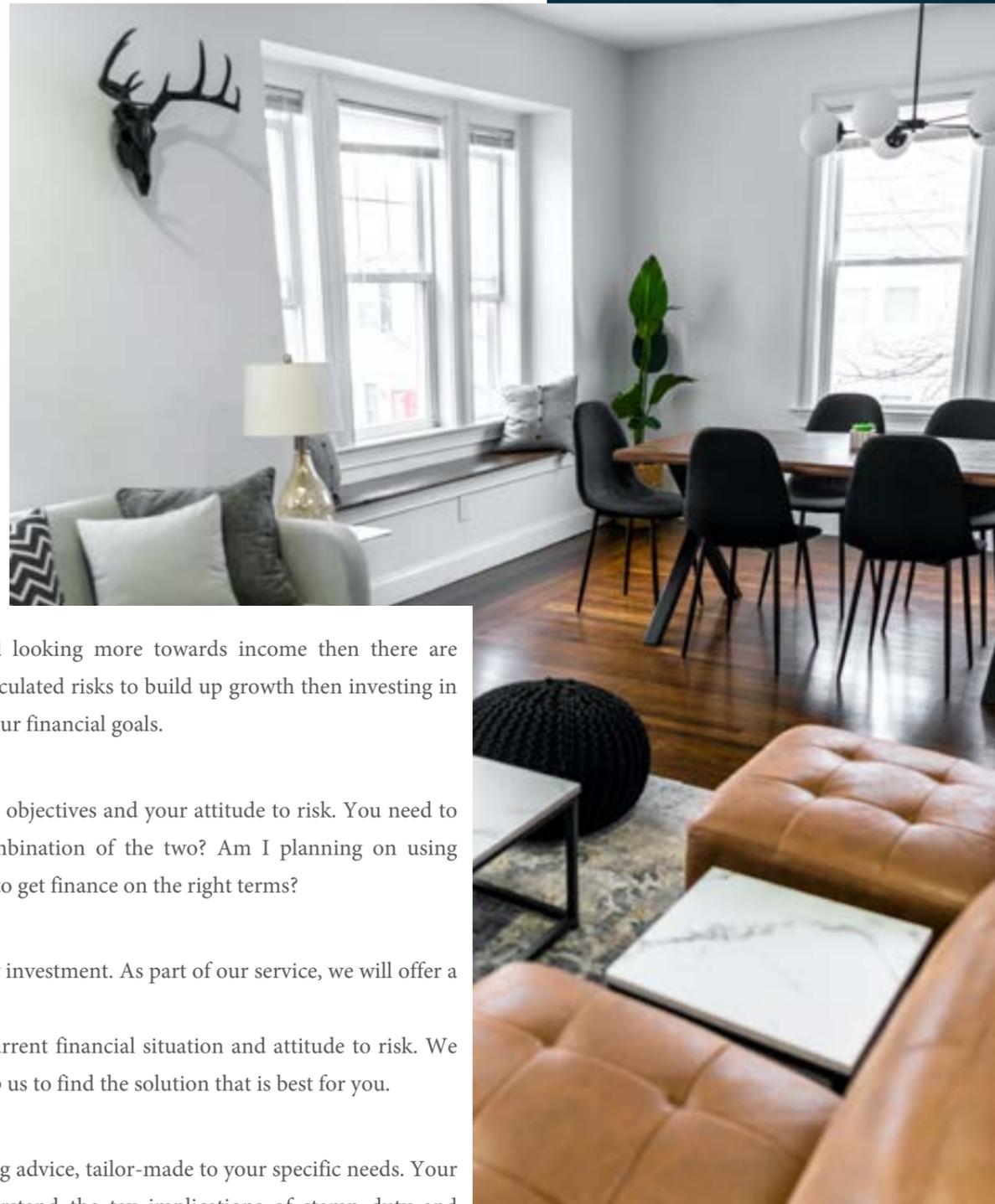
There are advantages to using a developer's recommended solicitor. This involves understanding the project which can result in a smoother purchase. As solicitors are regulated they must act in your best interest. However, there is a potential risk of a conflict of interest. As a prospective buyer, you have the right to appoint any solicitor of your choice. You can find out more about this on our guide to solicitors.

## 11. Should I buy via a limited company?

There are many advantages of buying property through a limited company but it is not for everyone. One of these advantages is a difference in buy-to-let mortgage tax relief between private landlords and limited companies. If you are unsure which option is best for you, then speak with your property consultant who will be happy to give you all the information you need to decide which option best suits your investment needs.



# Should I invest in an off-plan property?



This depends on you. If you are cautious by nature and looking more towards income then there are potentially better options. Yet if you are prepared to take calculated risks to build up growth then investing in off-plan properties could be a great way for you to achieve your financial goals.

## **Investment goals**

As an investor, you should always be clear on your financial objectives and your attitude to risk. You need to ask yourself, am I investing for income, growth or a combination of the two? Am I planning on using mortgage finance to fund the purchase? And if so, am I sure to get finance on the right terms?

## **Consultative approach**

At Esper Wealth we take a consultative approach to property investment. As part of our service, we will offer a free investment review.

From this review, we will gain an understanding of your current financial situation and attitude to risk. We will also get a clear picture of your future goals. This will help us to find the solution that is best for you.

## **Property Experts**

When dealing with Esper Wealth you will receive outstanding advice, tailor-made to your specific needs. Your investment consultant will be on hand to help you understand the tax implications of stamp duty and mortgage interest tax relief. Your advisor will be able to guide you on mortgages.

It may be that you are thinking of buying an investment property via a limited company. If you are a higher taxpayer, then we suggest reading our guide to investing via a limited company.

Just as importantly our experts can help to find investment property in the best locations, at a great price. This insider knowledge will help you unlock real value from UK property.

# The Esper Approach

At Esper Wealth we work for you. Our role is to listen to you and guide you to achieve your goals. As a client we want you to feel comfortable in the investment process, in the belief that we are delivering the best advice. With this in mind, it is important to follow three simple rules when investing:

1. **Never feel pressured.** Many property sales companies work on urgency. This is the wrong approach. You should take the time to decide what is right for you and your family. If this means you miss a particular property then be rest assured another opportunity will arise.
2. **Be transactional.** This means trying not to be emotive about a property. Remember you are not living in it. Ask yourself, do the numbers work financially for me?
3. **Ask yourself, what if?** In life, we never know what's around the corner. Sometimes your circumstances can change. If things do change, how will it impact me? Whilst you can never legislate for all contingencies, it is advisable to invest with your eyes open.

If you are interested in off-plan opportunities, or completed property direct from the developer, then visit our developments page. Alternatively, if you would prefer to start your investment journey by having a no obligations, free investment review, Then contact a member of our team who will be happy to help.