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# A Guide To Buying 'Off The Plan'

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- John Meagher -



## ABOUT JOHN MEAGHER - THE AUTHOR

UNTIL NOW, THERE HAS BEEN NO COMPREHENSIVE PROFESSIONAL GUIDANCE ON BUYING PROPERTY "OFF THE PLAN" AVAILABLE TO PROSPECTIVE PURCHASERS, UNLESS THEY ENGAGE THE SERVICES OF A REPUTABLE PROPERTY CONSULTANT.

MAKING SUCH INFORMATION ACCESSIBLE TO EVERYONE INTERESTED IN "BUYING OFF THE PLAN" IS ONE OF THE MAIN AIMS OF THIS GUIDE.

IN THIS GUIDE WE SHARE OUR COLLECTIVE INDUSTRY EXPERTISE TO CLEARLY SET OUT THE PROCESS OF HOW TO PURCHASE SUCCESSFULLY "OFF THE PLAN".

THIS GUIDE COVERS EACH STEP AS A CHECKLIST, FROM INITIAL DECISION-MAKING TO FINAL OUTCOME AND EVERY STAGE IN BETWEEN, INCLUDING FINANCIAL EXPECTATIONS, TECHNICAL DETAILS AND LEGAL REQUIREMENTS.

John has been involved as a sales and marketing director in the residential development industry for over 20 years.

The inspiration behind writing this book is in response to the constant questions he receives about buying property off the plan. It is a consumer guide, but more than that it is also guide for developers to 'get it right'. In that way he's trying to achieve a win-win outcome – for both the buyer and the seller.

That's always been his business philosophy and why he's been involved in some of Australia's most iconic and successful residential developments and has been responsible for the sale of more than 14,000 residential properties throughout Australia. It's also the reason he started 360° Property Group.



## ABOUT 360° PROPERTY GROUP - THE AGENCY

360° Property Group was launched in August 2009 when two directors, John Meagher and Brent Hill, decided it was time for a new full service development sales agency to provide a fresh approach to getting residential development right. 360° Property Group now has close to 30 staff with offices in both Australia and Asia.

The company has a simple mantra – it distinguishes itself through its proven analytical capacity and ability to maximise the value for residential development companies and financial institutions, as well as individual purchasers and property investors.



## INTRODUCTION

Following the information within this guide will help your next off the plan experience exceed every expectation and provide a suitable foundation for future off the plan property purchases.

For well-informed purchasers, buying property off the plan has numerous financial and emotional benefits, but for the uninformed purchaser there can be many hazards that can turn the expectation of a great investment opportunity into a financial and emotional headache.

At 360° Property Group, we are pleased to be associated with success stories, where our customers/purchasers benefit from making astute investment decisions. Unfortunately, we also hear of many cases where purchasers have received poor advice or no advice, and make what industry experts consider to be classic mistakes by not asking the right questions.

Every effort has been made within this guide to provide accurate and up to date information about buying off the plan at the time of publishing.

To achieve the best possible outcome it is important to be completely familiar with all relevant information, including the First Home Owner Grant (FHOG) and specific State/Territory legislative requirements.

For the latest, most up to date information, we suggest you visit the websites listed under Reference Sites (page 41) in this document.



## "WHAT IS BUYING OFF THE PLAN?"

Buying off the plan is a literal term for purchasing property that has not yet been built. In other words, making a decision to buy an apartment or house based on the documentation available prior to construction.

This includes all financial and legal documentation which explains the contractual commitments, architectural plans and exterior/interior visual computer generated images.

### **BENEFITS**

- Alternative deposits – which means you can use a lower cash deposit, a bank guarantee or a deposit bond (project dependent).
- Maximise tax advantages.
- Stamp duty concessions in some States.
- Customised design possibilities.
- Longer settlement period, allowing for potential capital growth.
- If settlement is longer than 12 months, then often a valuation at the current market price may allow 100 percent finance.
- Interest on deposit is often received by purchasers when cash deposits are made.
- Time to save more cash during settlement period.
- Opportunity to move into a brand new apartment.
- Deposit is held in trust.

### **WHAT ARE THE RISKS?**

- The project may not proceed.
- The finished product may differ to what you anticipated.
- Expected capital growth doesn't eventuate or value may be less than purchase price.
- Developer may go into liquidation which stalls the project and ties up your deposit.
- Project may be delayed.

# KEY CRITERIA WHEN BUYING OFF THE PLAN

THERE ARE **THREE** MAIN CRITERIA WHEN EVALUATING AN OFF THE PLAN INVESTMENT.

- 1. THE PROJECT MUST MEET ALL FINANCIAL CONSIDERATIONS**
- 2. PASS A THOROUGH ASSESSMENT OF ALL TECHNICAL ASPECTS**
- 3. CONFORM TO AUSTRALIAN LEGAL REQUIREMENTS.**

THE FOLLOWING SECTIONS PROVIDE USEFUL INFORMATION ON EACH OF THESE CRITERIA.

## 1 **FINANCIAL** CHOOSING THE RIGHT PROPERTY TYPE

– new house or new apartment?

New apartments are the most popular form of off the plan property purchase. This is due to a range of factors, including:

- Australia's ageing population looking to down size from large suburban homes to low maintenance lifestyles.
- First time property buyers looking for an affordable, secure, inner city lifestyle offered by off the plan apartments, often in more desirable locations (particularly inner-urban areas where property values are also more likely to appreciate at a higher rate and are located close to transport and amenities).

These factors contribute to an increased rental demand in this sector. Another strong trend is that younger generations are also choosing new apartments instead of houses. In turn, the overall demand for apartments continues to push rental yields and capital growth higher.

The depreciation will be greater on an off the plan apartment compared to a house (relative to the purchase price) because an apartment has more building value as a ratio of the land price. In other words, the building value will be proportionally higher relative to the land value, due to a larger volume of construction over multiple levels. Building costs in an apartment complex also include items like lifts and ventilation which depreciate at a higher rate.

When purchasing any property it is prudent to check with your bank or financial institution their lending policy prior to signing a contract. Understand how much money (equity) you need to contribute to fund your proposed purchase. In other words, how much will the banks lend you on the purchase price (or valuation) of property, referred to as 'loan to value ratio'.



**Not only are off the plan apartments usually more affordable than houses, they are more likely to provide:**

- Higher rental return
- Lower maintenance
- Body Corporate building management
- Closer proximity to amenities (such as employment hubs, transport, shops and schools)
- Lower vacancies
- Better security

**Secure at today's price, pay later**

One of the benefits of buying off the plan is the chance to secure property at today's market value and not having to settle for extended periods, (usually 18 months or more).

This means that while you pay a 10 percent deposit when the contract is signed, you won't have to pay the balance until the property is complete. Also, your deposit can be paid as a bank guarantee (banks usually charge a fee for this service), using equity in other property you may have. This way you keep your money until settlement and at the same time, benefit from any capital growth which may occur on the property you buy off the plan.

**TAX BENEFITS**

Tax deductions via depreciation allowances are considerably higher for off the plan property purchases. See a professional taxation adviser to make sure you maximize your tax benefits.

The following sub-sections describe some of the tax benefits of buying off the plan.

**1. Property depreciation (when buying as an investment)**

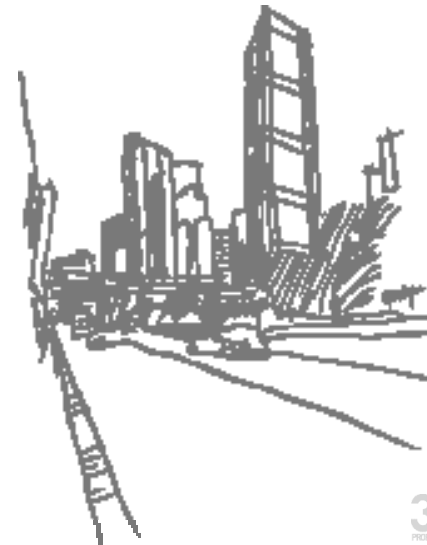
In a similar way to claiming wear and tear on a car purchased for income-producing purposes, you can also claim the depreciation of your investment property against your taxable income.

Two types of allowances are available.

- 1) Depreciation of plant and equipment (Division 40).
- 2) Building allowance (Division 43).

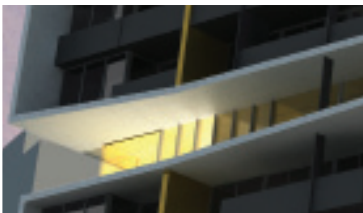
Plant and equipment refers to items within the building such as ovens, dishwashers, carpet, light fittings and blinds. Building allowance refers to construction costs of the building itself, such as concrete and brickwork.

Both these costs can offset tax against your assessable income.



## 2. Maximising tax depreciation

Tax depreciation is available on any property in which the owner receives assessable income through rent or business operation from the premises. As a general rule, any property you may be considering to buy off the plan (either residential or commercial) is eligible for a construction write-off allowance. All buildings refurbished after 17 July 1985 attract depreciation and the building write-off allowance. All external works (including fencing, paving, pergolas and garden sheds) constructed after February 1992 attract the building write-off allowance. Consider getting a depreciation report professionally prepared if you need to recover any missed depreciation benefits (up to a period of four years), by amending previous tax returns. For more detailed information on depreciation visit: [www.bmtqs.com.au](http://www.bmtqs.com.au) or speak to your tax accountant.



## 3. Negative gearing

Negative gearing is when you borrow funds to acquire an investment property and the interest on those borrowings and other costs you incur are greater than the income rent you receive. These costs are then applied to reduce the tax that you pay on the rest of your income. In this way, the Australian Taxation Office (ATO) acts to subsidise the holding costs of your investment property, in conjunction with the rental income from your tenants. Negative gearing of investment property in Australia is used to make it easier to hold property and let it grow in value over time. For more information visit: [www.ato.gov.au/content/00270214.htm](http://www.ato.gov.au/content/00270214.htm)

## 4. Judge the investment first, not the tax benefit

A good investment must be profitable over time. In this respect, it should also give you a steadily increasing income. While this income will incur some tax, it is important to consider a prospective purchase from its total investment value, not the taxation benefits you receive (negative gearing for example). There is no point in having the negative gearing without capital growth.



## 5. The purchasing process

Once you've decided on a particular property, you will usually be required to pay a reservation fee to secure the first right of refusal. This fee will hold the property until the contracts are ready. At this point there may be a time period within which you need to sign and exchange the contracts (along with a 10 percent deposit). Take note of this deadline because if you don't meet it, the property can be sold to someone else. And above all, make sure you obtain proper legal advice on the contract before signing.

## 6. Remember to revalue annually

Revalue your investment property or properties on an annual basis. This will enable you to use any additional equity to negotiate a larger loan which will allow you to reinvest in an additional investment property, when the timing is right. It will also give you a clear indication as to how your investment is performing.

Note: valuation should be done on capital value of property as well as rental value.

## 2 **TECHNICAL INFORMATION**

Being aware of important technical information when buying off the plan can make all the difference between a good and bad investment.

Some of the advice in this section is common sense and reasonably well understood by the property-buying public (although it is not necessarily followed).

Other information here reveals the tricks which disreputable agents use to mislead prospective buyers.

For example, some agents will quote room sizes using measurements taken to the exterior of the building. Not surprisingly, this often catches out unwary buyers.

The bottom line is, you can never ask too many questions or have too much accurate information about a property you're interested in buying.

### **Be wary of high rental guarantee**

When buying investment property off the plan, beware of suspiciously high rental guarantees. These can be used to set prices above market value.

For example, if gross rental returns are offered on a project at 10 percent and the vendor guarantees a \$400 a week rental, this prices a property at \$208,000. But if the actual market rent is \$350 a week, the property is then only worth \$182,000.

In this scenario, a purchaser will end up paying 12.5 percent above market value, whereas the vendor only has to pay \$5,000 to guarantee the extra rental for two years but scores an extra \$26,000, or \$21,000 net.

In summary, if you think you are being offered a suspiciously high rental guarantee, check market rents in the area. If it is higher than the market you will probably find yourself paying for it in the inflated price.



### **Always check the inclusions**

Always check inclusions such as car parking and air-conditioning are included in the price. Many developers and less reputable agents will advertise prices which do not include these. Always check the specifications in the Contract of Sale and remember to ask the question, "what is included in this price?" Don't always assume you are buying what you see in the developers sales centre or brochure. Additional priced upgrades may be displayed.



### **Always check ceiling heights**

A low ceiling will dramatically reduce any feeling of space. Ceiling heights should be a minimum of 2.5m in living areas and bedrooms. Developers often lower ceilings to squeeze in an extra level of apartments which, in turn, compromises all of the apartments. Low ceiling heights will make even the largest bedroom feel tiny.



## Exhaust fans – exterior venting only

Have you ever visited an apartment building and noticed damp air or stale cooking smells lingering in the common corridors?

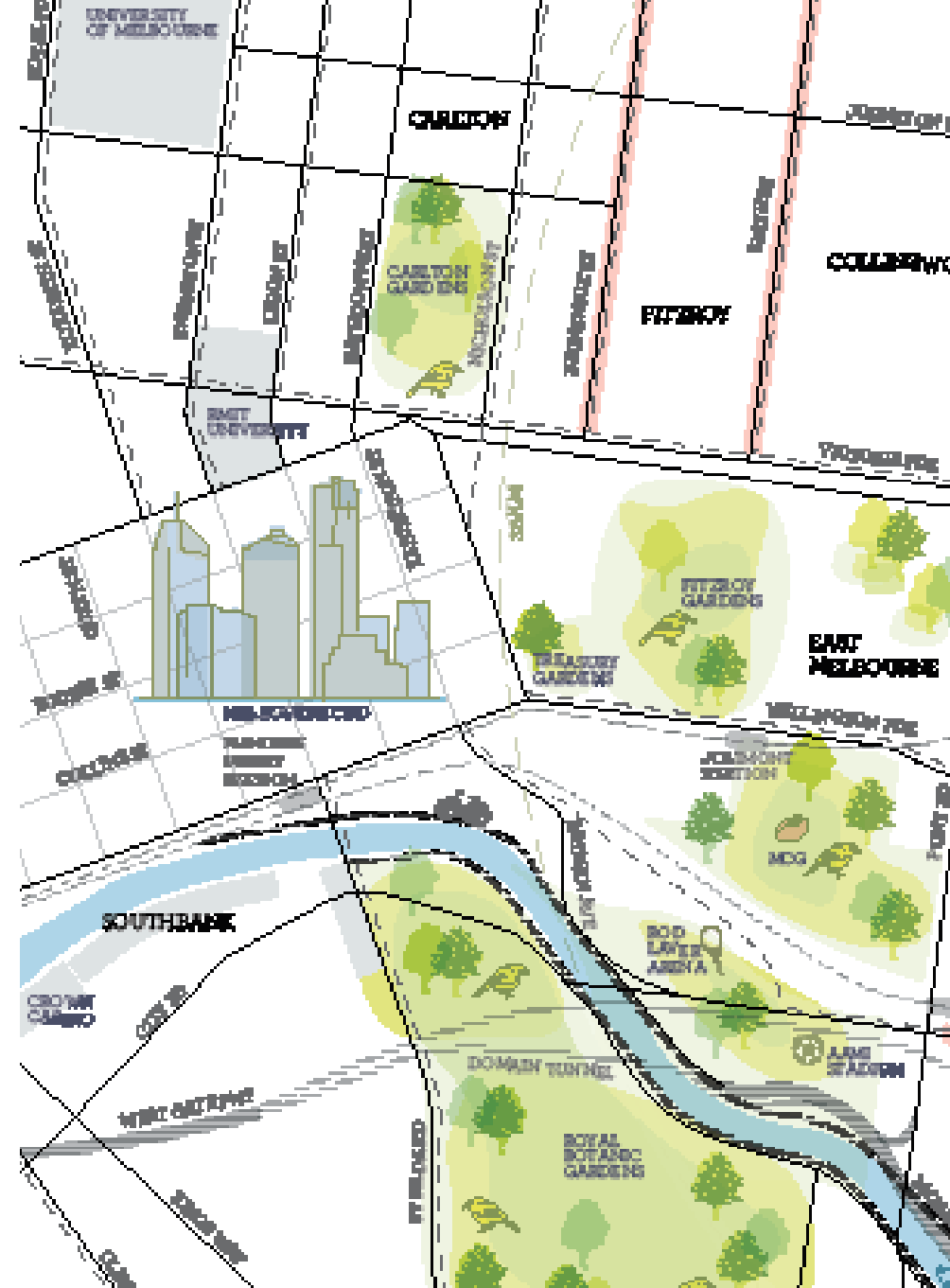
The likely reason is that the exhaust fans installed in the kitchen (rangehood) and bathroom of each apartment don't expel air to the exterior of the building. Instead, they only recirculate the spent air within the building, usually by venting it into shared spaces like access corridors. This half-measure approach may only become apparent once a building has been inhabited for some time.

Certainly, if you're buying off the plan you're never likely to be aware of it unless you ask whether exhaust fans are recirculating or exterior-venting. Needless to say, quality apartment developments only specify exterior-venting exhaust fans.

## Assess the surrounding precinct

Stroll or drive around the area surrounding a project. Consider things like proximity to public transport or arterial roads, employment hubs and community facilities like schools and parks. Pop into the local council offices and find out about any future development plans in the immediate area, including any forthcoming government infrastructure.

Determine the area's long term supply-demand for property types like the one you are considering. In short, be as informed about the 'neighbourhood' as possible. Any reputable agent selling a development will know and supply you with all of this information.





## Always check measurements

It is important to check the room dimensions you've been given, especially bedrooms. Why? As building/construction costs increase, developers have to reduce the size of apartments in an effort to maintain affordability. In some cases they shrink them too much!

To fit a standard double bed (which is 1.37m wide and 1.87m long, a queen bed 1.53m wide and 2.03 long) comfortably, the bedroom will need to be 2.7m deep and 3.0m wide. This allows access around the bed and the robe would be additional.



## Factor in stamp duty

The cost of stamp duty must be added to the overall amount you're paying. Stamp duty legislation differs in each state and territory so it is important to understand the specific legislation that relates to the location of your intended purchase. Compared to other states and territories, there are substantial stamp duty savings to be made when buying off the plan in Victoria.

Stamp duty in Victoria is based on land value at the date of purchase whereas the amount of stamp duty you pay in NSW is determined by the total purchase price – in other words, the land value and the price you paid for the forthcoming structure.

To explain the Victorian legislation more fully, you only pay stamp duty on the unimproved value of the land, which means the land value and the value of the construction on the land at the time of sale, if any exists.

The amount of stamp duty will therefore depend on the value of land, the number of properties being constructed on it and the construction stage at the time of valuation. This land value is proportioned among the number of dwellings on site. In other words, as a percentage of the total property value, stamp duty is minimal.

Because every Australian state and territory treats stamp duty differently and each changes their relevant policies from time to time, we urge you to check your State Revenue office for all up-to-date information. The websites are listed on pages 41 of this guide.

## Proof of progress

Ensure the developer has obtained all of the approvals for the project to commence and if not, find out what still needs to be approved. Get your solicitor or settlement agent to check that these are provided prior to signing contracts.

## Check your developer's background

It always pays to check the developer and/or builder's background and reputation. If they have completed other projects, visit some and if possible, chat to the owners about their experiences.

## Final inspection – keep your contract handy

Always have your contract with you during final inspection so you can double-check that all of the inclusions are actually in the property before you settle. This way, if anything is missing (such as power points or kitchen appliances like a dishwasher), you will be able to prove the discrepancy so the developer/builder is legally obliged to sort out the issue as soon as possible.

## Possible triggers for failure

- Purchase price too high
- Property in an area of low capital growth potential
- Property too high-maintenance
- Rent too low
- Vacancy periods too long or too frequent
- Loan / contract structured incorrectly
- Tax deductions overlooked

### 3 **LEGAL**

Engage an expert.

Make sure you engage a legal practitioner to draw up and monitor the implementation of your contract.

Make sure they are a local practitioner (ie; Victorian-based if your property is in Victoria) because property law varies in each state and territory of Australia.

## CONTRACT INCLUSION CHECKLIST

(See the specification section of your contract for this information)

Floor plans / Building plans / Site plans

Comprehensive list of quality fixtures and fittings, including:

- Kitchen cupboard construction
- Heating and cooling
- Floor coverings – type and quality
- Wall finishes – type and quality
- Location of air-conditioning unit
- Appliances – type and quality
- Signage – body corporate often limit the use of exterior signage to maintain building integrity
- Security – intercom and secure car parking
- Glazing – all modern luxury apartments have tinted glazing to achieve adequate thermal rating and for residential privacy



# IMPORTANCE OF A SUNSET CLAUSE

Including a sunset clause in the contract is important because it requires the developer/builder/vendor to complete the project (as specified in the contract), by a particular date or within a particular timeframe.

A sunset clause benefits every stakeholder in the project if they adhere to their contractual obligations. It enables the developer or builder to achieve a certain level of presales and also gives you, the buyer, a date when you can legally walk away from the contract and retrieve your deposit if the developer and/or builder doesn't deliver a completed project on time.

That said, it is equally important to fully understand all the obligations set out in a sunset clause. For example, it is possible that a contract with a sunset clause can lead to the contract being terminated before the settlement date. In such instances, some developers may try to resell the same property to you at a higher price after the contract expires.

Also, if a sunset clause date extends for a particular period (like six months), after the expected completion date, and the development is completed within that extended period, the buyer must settle at the agreed purchase price. When working out whether this timeframe is acceptable, consider how far advanced the development is when you sign the contract and what is involved in order to reach completion.

Nonetheless, a contract without a sunset clause leaves you vulnerable to far worse possibilities, such as being held to the contract indefinitely, with no access to your deposit money (to buy another property) until the vendor agrees to release you from the contract.

## Ruling changes to foreign investment in Australian real estate

All temporary residents seeking to purchase an existing property in Australia now must undergo the Foreign Investment Review Board (FIRB) notification, screening and approval process. In this respect, temporary residents are subject to the same compulsory notification, screening and approval requirements required of foreign non-residents. Temporary residents who are approved by the FIRB must sell the established property they bought when they leave Australia and, if they have bought undeveloped land, commence construction on that land within 24 months or have the land compulsorily sold.

## Land tax

Land tax is an ongoing obligation. Land tax is applied to the land component only of any property, although each Australian state has individual rules and regulations. For example, each state has a different land threshold value before land tax is payable, and different rules regarding the land tax treatment for trusts. Be aware that even if you have properties held by the same entity but in different states, this entity must lodge Land Tax Returns for each respective state. In some instances when Partnerships, Companies, Trusts and other entities are involved, the land tax obligations can be quite complex. However, land tax is not applied to your principal residence, if you are living in the property.

You may be required to lodge a land tax registration form or a land tax variation form if you have:

- Bought an initial investment property
- Bought additional investment properties
- Sold an investment property
- You have a holiday home
- If your circumstances have changed (such as if you have begun renting out your principal residence)

Government policies on stamp duty change from time to time, so for the latest rulings, please refer to the specific websites listed below each of the following summaries.



### Australian Capital Territory

Land tax is assessed on a quarterly basis on the first of July, October, January and April. Land tax rates on residential properties valued up to \$75,000 are taxed at 0.6 percent and increase to 1.4 percent for land valued from \$275,001. For more information visit: [www.revenue.act.gov.au](http://www.revenue.act.gov.au)



### Queensland

Land tax in Queensland is levied on the aggregate of the unimproved value of all freehold land at midnight on 30 June each year. For individuals, no tax is payable below a \$600,000 threshold. For companies, trusts and absentees, the threshold is \$350,000. Various rates of tax apply to amounts above the threshold. For more information visit: [www.osr.qld.gov.au](http://www.osr.qld.gov.au)



### South Australia

Land tax in South Australia is based on the site value of the property at midnight on 30 June of the year before the financial year for which the tax is levied. The threshold below which no tax is payable is \$300,000 for individuals and various rates of tax apply to amounts above the threshold. For more information visit: [www.revenuesa.sa.gov.au](http://www.revenuesa.sa.gov.au)



### Tasmania

Land tax in Tasmania is assessed on the aggregate assessed value at 1 July. The threshold below which no tax is payable is \$24,999.

Various rates of tax apply to amounts above the threshold. For more information visit: [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)



### Victoria

In Victoria, no land tax form needs to be lodged because the State Revenue Office of Victoria automatically sends out an assessment. But if you are in an applicable category and don't receive an assessment, it is important to organise one because land tax is self assessed and the onus is on the taxpayer. Assessment is determined annually at midnight on 31 December and payable at standard rates on the unimproved value of landholdings from \$250,000. Various rates of tax apply to amounts above the threshold. For more information visit: [www.sro.vic.gov.au](http://www.sro.vic.gov.au)



### Western Australia

Land tax in Western Australia is assessed on the basis of the unimproved value of land holdings at midnight on 30 June each year. The threshold below which no tax is payable is \$300,000. A Metropolitan Region Improvement Tax (MRIT) is also imposed on metropolitan (Perth) property. For more information visit: [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au)



### Northern Territory

The Northern Territory Government does not currently impose land tax on land owners.



## New South Wales

Land tax payable in New South Wales depends on the taxable value of the landholdings at midnight on 31 December of the year it is assessed. The threshold below which no tax is payable is \$387,000 for individuals and companies. Above the value of \$387,000, land tax is \$100 plus 1.6 percent. For more information visit: [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)



## Foreign investment legislation – residential property

Residential real estate means all Australian residential land and housing other than commercial and rural properties (such as offices, factories, warehouses, hotels, restaurants, shops and land used exclusively for primary production). Acquisitions of ‘hobby farms’ and ‘rural residential’ blocks by foreign interests are considered to be residential real estate.

The Australian Federal Government’s policy seeks to channel foreign investment in the housing sector into activity that directly increases the supply of new housing (new developments such as house and land, home units and townhouses), and brings benefits to the local building industry and its suppliers. The policy also aims to encourage the supply of new dwellings, many of which would become available to Australian residents for purchase or rent.

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## Foreign investment legislation – approval of new dwelling

New dwellings acquired off the plan (either before construction commences or during the construction phase) or after construction is complete, are normally approved where the dwellings have not been sold before (that is, they are purchased from the developer) or have not been occupied for more than 12 months. There are no restrictions on the number of these dwellings in a new development which may be sold to foreign investors as long as the developer markets the dwellings locally as well as overseas. In other words, the dwellings can’t be marketed exclusively overseas.

This category includes dwellings which are part of extensively refurbished buildings where the building’s use has undergone a change from non residential (such as an office or warehouse) to residential. It doesn’t include established residential real estate that has been refurbished or renovated. A property purchased under this category may be rented out, sold to Australian interests or other eligible purchasers, or retained for the foreign investor’s own use. Once the property has been bought it is considered second-hand real estate and subject to the restrictions applying to that category.

## **Foreign investment legislation – exemptions**

Certain acquisitions are exempt, which means they don't require notification or approval under the Foreign Acquisitions and Takeovers Act 1975. Foreign investors unsure whether their proposed acquisition is exempt should get legal advice. The following list provides an overview of key exemptions.

## **You don't need to submit an application for approval to acquire real estate in Australia if:**

- You are an Australian citizen living abroad
- Your spouse is an Australian citizen (not a permanent resident) and you are purchasing residential real estate in both names as joint tenants (not tenants in common)
- You are a New Zealand citizen and you are purchasing residential property
- You hold a permanent resident visa and you are purchasing residential property
- You are purchasing new dwelling(s) from a developer, where the developer has pre-approval to sell those dwellings to foreign investors
- You are acquiring an interest in a time-share scheme which does not permit you (and any of your associates) more than four weeks entitlement a year
- You are purchasing certain residential real estate in an Integrated Tourism Resort (ITR)
- You are acquiring an interest in developed commercial property valued at less than \$50 million or \$1062 million (indexed annually) for US investors, or \$5 million for heritage listed properties where the acquirer is not a US investor
- You are acquiring an interest in developed commercial property where the property is to be used immediately and in its present state for industrial or non-residential commercial purposes. The acquisition must be wholly incidental to the purchaser's proposed or existing business activities are acquiring an interest by will or by operation of law (such as a court order regarding the division of property in a divorce settlement, but not if both parties simply agree to transfer property without a court's intervention)
- You are purchasing property from the government (federal, state / territory or local)



# How to measure apartments accurately & consistently

The following guidelines for measuring apartments are taken from the Property Council of Australia's Method of Measurement for Residential Property.

All information referenced here conforms to the Building Code of Australia (BCA) 2006 Classification of Buildings and Structures. It also conforms to Property Council recommendations that all measurements should be rounded to one decimal point of a m<sup>2</sup> unit.

## **Use the following rules to determine the residential property area (total floor space within a dwelling at each floor level):**

- Measure external building walls, standard and service facility walls to the external finished surface of the dominant portion of the walls
- Measure shared dwelling walls from the centre line
- Measure attic space or sloping walls from the point which provides a clear area of 1m above the floor level
- Measure the horizontal surface of internal stairs to all levels, including the area underneath
- Measure voids over spaces and record them separately
- Measure common corridor walls to the outside face of the walls
- Measure common walls to stairs, lifts and ducts to the inside face of the structural wall

## **Measuring heritage facades:**

- Measure thick external walls to the outside face in the same way as external walls
- Measure heritage walls that abut a common internal area (such as a corridor) to the centre line of the existing heritage wall

# MEASURING APARTMENTS

## Include in your residential property area measurements:

- Window mullions and frames
- Structural columns under 1m<sup>2</sup>
- Engaged perimeter columns or piers
- Service ducts under 1m<sup>2</sup>

## Exclude from your residential property area measurements:

- Balconies, terraces and verandas
- Car parking spaces, carports and garages
- Storage spaces outside the dwelling

## Measure the following separately:

- Columns that exceed 1m<sup>2</sup>
- Service ducts that exceed 1m<sup>2</sup>

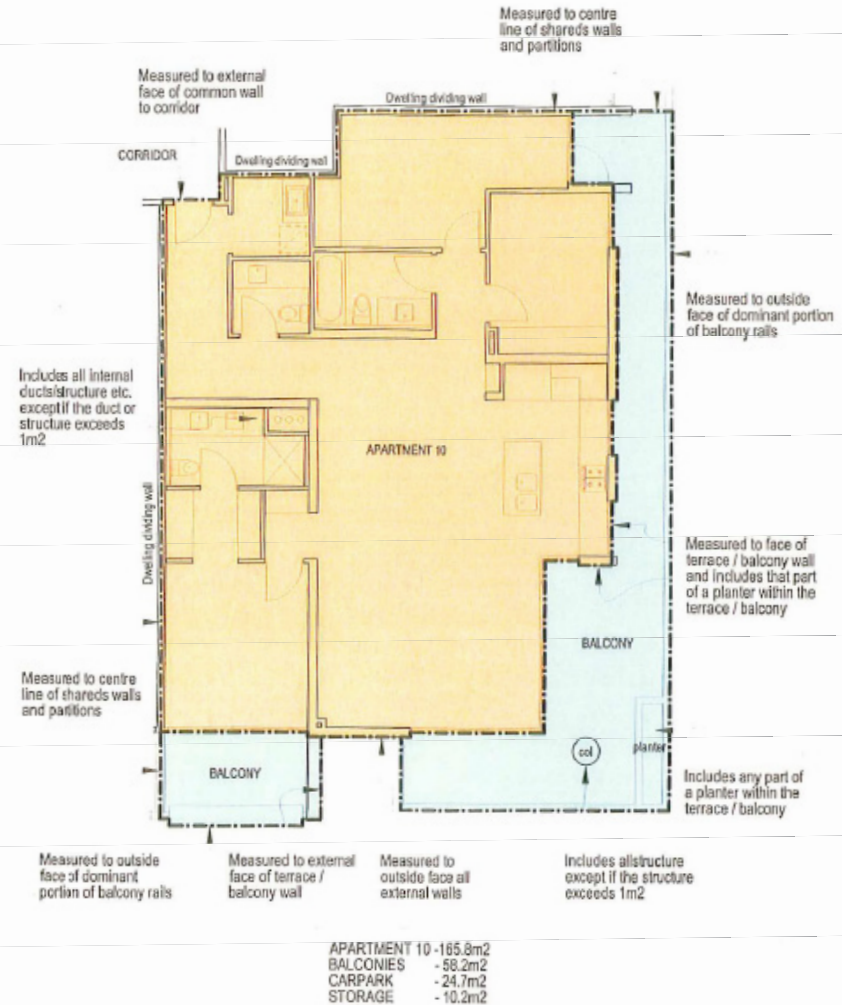
## Balconies and terraces should be excluded from your overall residential property area but may be measured and identified separately, as follows:

- Measure to the dominant part of balcony rails and planter within the balcony
- Measure to the dominant part of the external face of terrace walls and planter within the terrace

## Measuring car parking and storage:

- Measure car parking spaces to the centre line of columns or centre line of line markings, whichever is greater
- Measure storage rooms and cages to the inside of walls

## APARTMENTS NOT ABUTTING COMMON SERVICES





## FREQUENTLY ASKED QUESTIONS

### Who normally keeps the interest from my 10 percent deposit?

This varies from project to project, however typically the developer would receive interest on the deposit. Sometimes the trust accounts do not permit interest being paid and as such, no one receives the interest. That said, ask the sales consultant if it is possible for you to receive the interest on the deposit. Usually this is why many investors use a bank guarantee. A bank guarantee means your cash isn't tied up until a settlement date that may be some time away in an off the plan project purchase.

### If I pay a cash deposit is it secure if something happens to the developer?

In most cases your deposit will be held in a solicitor's trust account until the project is complete, or the registration/sunset period expires. The deposit should be safe until settlement occurs but check the individual project details with you sales consultant.

### Can I make changes to my apartment?

This varies from developer to developer, but if the developer is fully integrated with its own construction division then some changes may be possible.

### Will the display be identical to my apartment layout?

A display usually only shows a particular level of finishes and not necessarily the standard of finish applied to all apartments. Ask the sales consultant how your apartment differs from the display and request a schedule of finishes relevant to the apartment you are looking at purchasing. Also, ask if what is shown in the display suite are all standard finishes and whether or not the display is the same in terms of kitchen, bathrooms and bedroom dimensions and layouts.

### What is the registration period or sunset clause?

As stated earlier in this guide, this refers to the maximum amount of time the developer has to complete construction. If the project is not complete by this time, either the purchaser or the vendor may choose to withdraw from the contract at their discretion.

## REFERENCE SITES

- First Home Owner Grant (Victoria); [www.sro.vic.gov.au](http://www.sro.vic.gov.au)
- NSW Home Builders Bonus (HBB); [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)
- NSW land tax and stamp duty legislation; [www.osr.nsw.gov.au](http://www.osr.nsw.gov.au)
- QLD land tax and stamp duty legislation; [www.osr.qld.gov.au](http://www.osr.qld.gov.au)
- SA land tax and stamp duty legislation; [www.revenuesa.sa.gov.au](http://www.revenuesa.sa.gov.au)
- TAS land tax and stamp duty legislation; [www.treasury.tas.gov.au](http://www.treasury.tas.gov.au)
- Vic land tax and stamp duty legislation; [www.sro.vic.gov.au](http://www.sro.vic.gov.au)
- WA land tax and stamp duty legislation; [www.dtf.wa.gov.au](http://www.dtf.wa.gov.au)
- Foreign purchasers; [www.firb.gov.au](http://www.firb.gov.au)

# TERMINOLOGY

## **Body Corporate**

Now correctly known as the Owners' Corporation, this is the body that runs a strata plan. All lot owners within the plan are members and entitled to nominate as and elect members to an Executive Committee which makes decisions about the management of the strata property.

## **Capital growth**

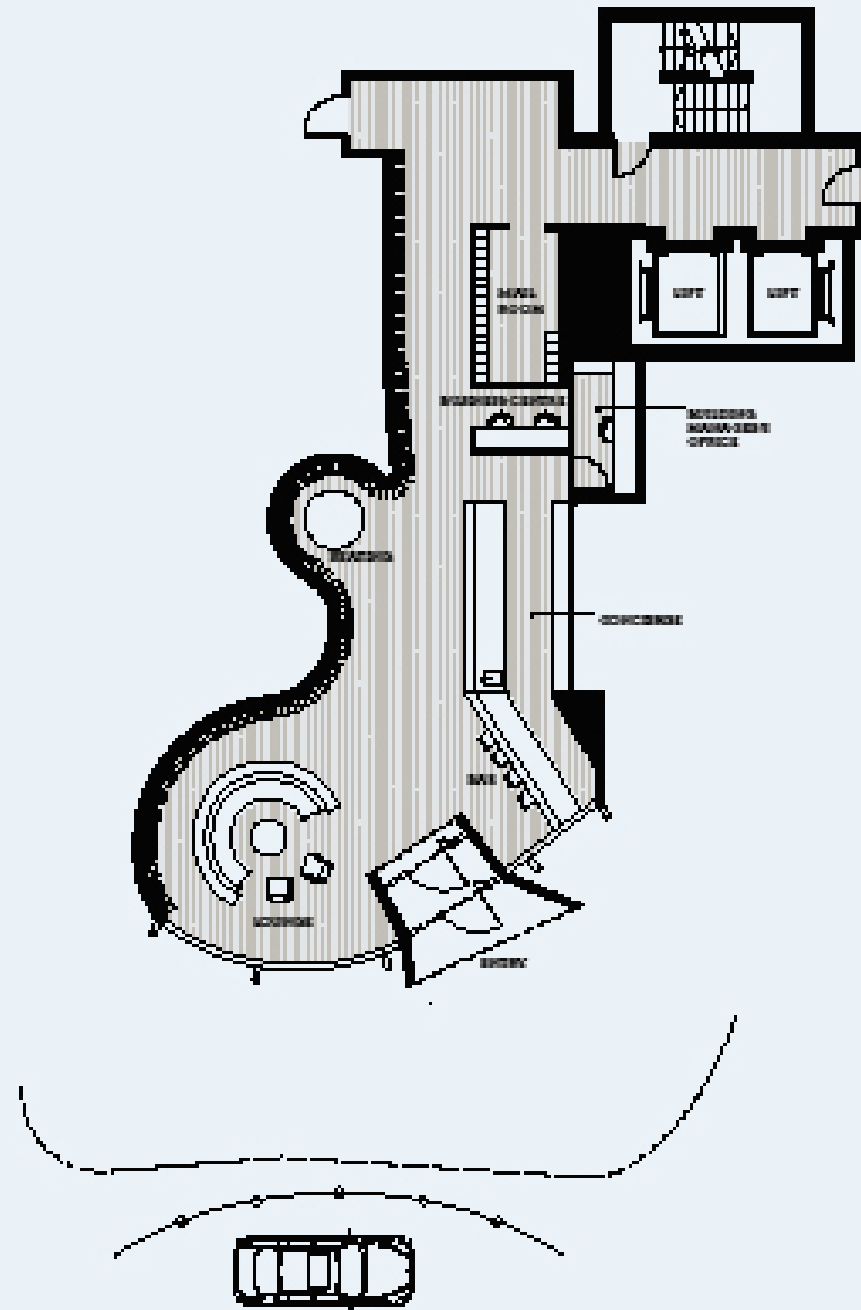
The capital growth of a property is used to describe the increase in its price or value. For example, if the median house price calculated on a certain suburb in the March quarter of a particular year was \$510,550 and in the March quarter of the previous year the median price for the same area was \$405,500, the capital growth of that area is the difference between the two. Capital growth is also often referred to as capital appreciation where the property has appreciated in value.

## **Certificate of Title**

A document identifying the ownership of land. The document shows the location, volume and folio numbers of the property and current ownership. The title may also show any easements, mortgages or other third party interests in the land. The original certificate of title is held by the Land Titles Office with an official duplicate held by the owner of the land or the mortgagee (such as a bank) if there is a mortgage over the land. Each time a property changes hands, the name of the new owner is registered on the title.

## **Common areas**

The areas within a building which can be used by all owners and residents. These usually include the foyer, stairs and lifts, hallways and grounds, although there may be other amenities like a common laundry, pool, gym and rooftop area.





### **Common walls**

Boundary walls between a dwelling and a common area.

### **Community title**

This title is most common in large apartment developments with multiple buildings where each has an individual strata title but share facilities like grounds, roadways, basements, barbecues, gyms and pools. The community plan levies each of its strata plans for a contribution to the upkeep of these areas and in turn, the strata plans include those fees in its levies to owners.

### **Consideration**

In a real estate purchase contract, the consideration is usually the price paid by the purchaser in exchange for the property.

### **Conveyance**

The process of transferring the ownership of property from the developer / sales agent to the buyer's name.

### **Cooling-off period**

In NSW, the standard cooling-off period is 5 business days from date of signing the contract. In Victoria, the cooling-off period is 3 days. In this time, a property buyer (but not the seller) may withdraw from the purchase. Contracts may be exchanged with the buyer waiving the cooling-off period. This may give buyers more negotiating power but it means all due diligence must be undergone before contracts are exchanged. A waiver should only be arranged by your solicitor.

### **Deposit**

The standard deposit on residential property transactions is 10 percent of the purchase price. Most developers or selling agents require the buyer to provide this (generally by cheque or electronic funds transfer) as part of the exchange of contracts.

The deposit is generally held in trust by the developer/agent. The amount of deposit may be varied by negotiation between the parties and is often done for high-value transactions.

## **Development Application**

A Development Application (DA) is the process of applying to the local council for required approvals for the development of a property, from exterior and structural changes, to demolition and rebuild and particular uses. Requirements and guidelines vary between councils.

## **Exchange**

When a developer / selling agent and a buyer provide each other with a signed copy of the contract and at which they become bound to the transaction. A buyer's offer or a selling agent's acceptance of an offer is not binding on either party until the contracts are exchanged. A deposit of 10 percent of the agreed purchase price for the property is usually required at the time of exchange.

## **Gross rental yield**

The gross rental yield on your property is used to compare the investment return. To calculate your gross rental yield you divide the rental income you receive in a year by the property's purchase price.

## **Improvements**

Any building on the land is considered an 'improvement' on the land.

## **Inclusions**

The items to be included in a property purchase. Some may seem obvious, but they should be specified in the contract. Standard inclusions are often items such as blinds, built-in wardrobes, curtains, dishwasher, fixed floor coverings, light fittings, range-hood and stove. Clothes dryers are also usually included, although washing machines rarely are.





## **Investment return**

Investment return is the percentage of change in the value of your investment over a period of time. It is determined using similar calculations to capital growth. Working out your investment return will help you determine how much your investment property is increasing in value and how it may continue to increase.

## **Levies (strata fees)**

The fees that owners in a strata plan must pay to the Owners Corporation for the management and upkeep of the building and common property. Levies are generally payable quarterly and are allocated into the Admin and Sinking funds. Strata levies vary considerably from one building to another and generally reflect the buildings facilities and condition.

For example, items that contribute to costs include lifts, gyms and pools. Concierges are very expensive. High levies may also point to major problems with building maintenance. Levies are usually between \$400 and \$800 per quarter. Special levies are sometimes required by the Owners Corporation to cover extraordinary expenses such as major building works, particularly when there isn't enough money in the Funds to pay for those.

## **Rates**

The amount charged by the local council or water authority to provide services to a property.

## **Search (title)**

The process of investigating or examining title of land to ascertain if the developer / sales agent has the right to transfer ownership. A title search reveals the names of the owner and other precise details of the property, like the existence of any restrictive covenant, encumbrance or caveat on the title.



### **Mean value**

The mean price of property values is the average value.

It is calculated on the total of the list of sales, divided by the number of sales on that list. The mean house price can often be significantly skewed by a sale which was exceptionally high or low and so does not always depict a typical house price.

### **Median price**

The median price is the middle price in a series of sales.

In other words, half the sales are of a lower value and half are of a higher value. The median price provides a more transparent reflection of the overall state of property sales than estimating the equivalent average price, because averaging is affected by individual properties sold at significantly higher or lower prices.

Calculations of median property prices are usually conducted over a three month period or a full calendar year. They may also be broken down further into the upper and lower quartile to enable an assessment of the top or bottom 25 percent of sales.

### **Median value**

The median value indicates that one half of a group of properties is higher and one half is lower. Don't confuse median with mean (or average) value.

The median and mean may be distinctly different depending on the group of properties being assessed. If property prices in a particular area are evenly distributed, the median and mean may be similar, but not if the prices are skewed to one or other end of the spectrum.

### **Owners' Corporation**

This is the body that runs a strata plan. All lot owners within the plan are members and entitled to nominate and elect members to the Executive Committee which makes decisions about the management of the strata property.

## **Service facilities**

Areas that contain utilities, pipes and conduits, and all associated mechanical and other services need to keep the building operational.

## **Settlement period (completion time)**

The point at which the transaction for a property purchase is completed and the new owner takes possession.

## **Special conditions**

Conditions added to the standard sales contract. Many of these are so common now that they are called 'standard special conditions'.

## **Strata title**

Most apartment buildings in Melbourne and Sydney are strata title, which simply refers to the subdivision of the land and buildings into individual lots that are owned and can be traded independently.

When you buy a strata title apartment, you own the space defined by

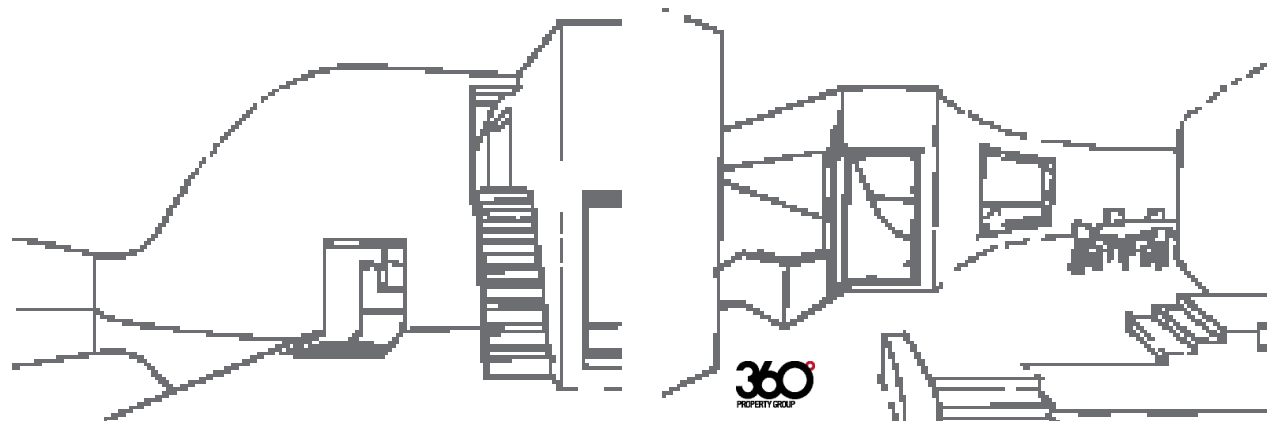
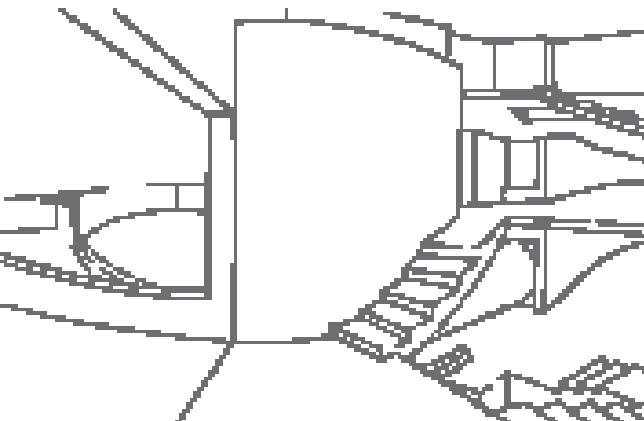
## **Sunset clause**

A sunset clause is a section within a sales contract that enables the developer or builder to achieve a certain level of presales and also gives you, as the buyer, a date when you can legally walk away from the contract and retrieve your deposit if the developer and/or builder doesn't deliver a completed project on time.

It is important to fully understand all the obligations set out in a sunset clause. For example, it is possible that a contract with a sunset clause can lead to the contract being terminated before the settlement date. In such instances, some developers may try to resell the same property to you at a higher price after the contract expires.

## **Vacancy rate**

The vacancy rate is the number of vacant rental properties that a real estate agency has available, divided by the number of rental properties they have. For example, if an agency has 100 rental properties and 10 are vacant in their vacancy rate is 10 percent. It is important to note that the vacancy rate does not take into account the types of properties which are vacant so the vacancy rate can differ depending on whether you are looking for an investment unit or a five bedroom investment house. However, knowing the vacancy rate can indicate whether an area has high rental demand or is oversupplied with investment properties.

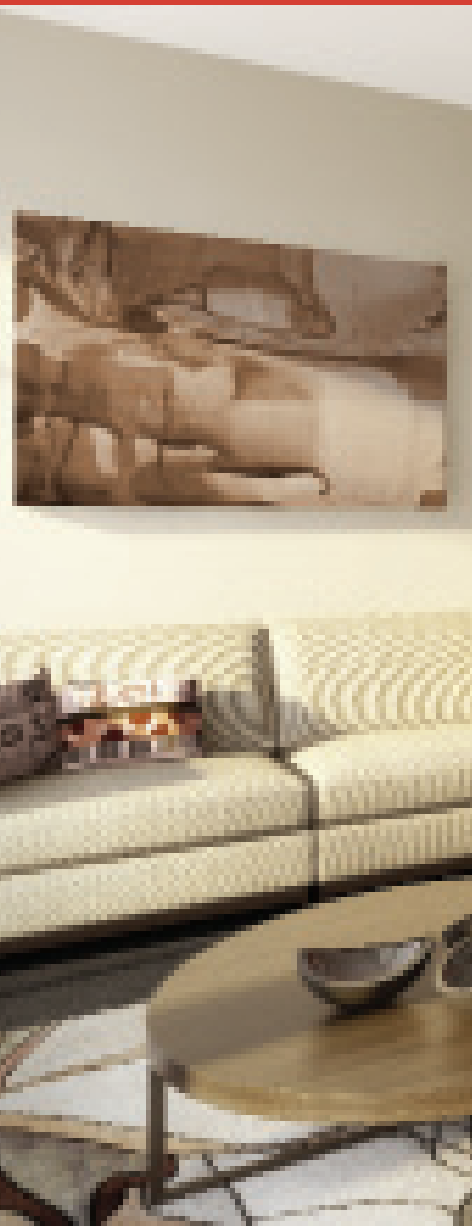


# PRE-PURCHASE CHECKLIST

- 1** Choose a location and property that meets your criteria and lifestyle requirements.  
For instance:
  - Is it close to amenities?
  - Is there parking?
  - Can you make changes to the finishes in any of the rooms?
  - Can you select appliances?
  - Do you have access to an outdoor area?
- 2** Check the history of similar developments in the area to make sure the price of the property reflects market value.
- 3** Check the credentials of the developer / builder / architect and investigate their past projects.
- 4** Arrange to visit the onsite display office and examine the plans so you know exactly how the property will look once complete.
- 5** Have a solicitor experienced in buying off the plan go over the contract and make sure the information fits with what the developer has told you. Also ask your solicitor about all relevant insurance and warranties so you are fully covered.
- 6** Check the layout of the building from the plans – where is your apartment in relation to views, common areas and lifts?
- 7** Review the contract carefully, especially with regard to:
  - Finishes and fittings – are substitutions permitted?
  - Can the apartment be on sold before completion?
  - Completion date delays – do you have any 'get out' clauses if it's not finished on time?
  - Defects identified post-completion – will the builder rectify these?



## PRE-PURCHASE CHECKLIST cont...



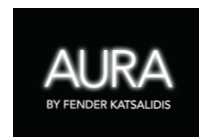
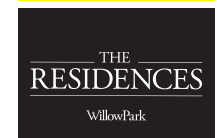
- 8** Prepare a checklist for your visit that includes items such as adequacy of power points, phone lines, TV outlets, gas outlets and fridge space.
- 9** Make sure all features and items on display appear in the 'inclusions' section of the contract (such as stove, oven, dishwasher, window furnishings and respective quality/brands).
- 10** Ask to see samples of materials and fittings being used in the construction.
- 11** Is landscaping included within the development?
- 12** Is pay TV available within the development?
- 13** Check which services will be connected (ie; gas, power, water)
- 14** Ask what the ongoing associated costs are of the apartment, such as the estimated owners' corporation and what it includes, the council rates and the water rates.



- 15** Check the amount of stamp duty to be paid at settlement.
- 16** What security does the building offer?
- 17** What are the ceiling heights?
- 18** Note the heating and air conditioning system (split/evaporative/ducted) and where the plant for these will be located. If it is a split system, also check where the internal cassettes are located and ensure they are rated for the floor area of the apartment.
- 19** Know how the area of the apartment has been measured. Make sure the sales consultant explains what the internal area is (excluding balcony) and does not include it as a total area.
- 20** Ask for a set of scale drawings or one showing measurements. Remember that some plans are not to scale which makes it very difficult to work out measurements.

## PRE-PURCHASE CHECKLIST cont...

- 21** Determine what the wall and floor systems are made from and what Building Code of Australia acoustic rating they achieve?
- 22** What glazing systems are installed. For example, are they laminated or double glazed?
- 23** Assess the surrounding area of the developments.
- 24** What energy-efficient measures will the building have and what energy rating does it conform to?
- 25** Have your finances in order in case the development finishes before the original deadline.
- 26** Get a building inspection prior to settlement. You should be fully satisfied that all building work is complete and all specifications and contractual inclusions have been met before paying the balance of the purchase price.
- 27** Check your completion times and sunset clauses.
- 28** Has the developer engaged a builder? Who are they?
- 29** Ensure all of the insurances and warranties are in place.





## CAPITALISING ON YOUR INVESTMENT



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