Your off-plan investment property options

The best way to secure a new-build luxury London home for below its market value is to buy off-plan up to four years before the property is ready to move into. But many investors have found an easier – but albeit riskier – way of making money from London's rising property market. They sell on their off-plan purchases before the developers demand the bulk of the purchase price.

Whether you plan to keep your off-plan investment or resell the property before completion (which is commonly known as flipping), all investors must go through **three key stages of the purchase process**.

1 Reservation

Buying off-plan typically starts with the completion of a reservation form and the payment of a fee typically in the region of £5,000. The reservation agreement will state the agreed price, schedule for further deposit payments due and the timescale in which contracts must be exchanged, usually between 14 and 28 days from the time draft contract papers and supporting documentation are sent to your legal adviser.

The reservation deposit gives you an exclusive hold on the property to enable you to instruct your solicitor and to complete the pre-contract legal work without fear of competition from other purchasers.

Although the reservation fee is non-refundable should you withdraw from the deal for any reason, it does not necessarily bind the developer to sell to you. In the rare case that a developer should withdraw before the end of the exclusive period they must return your deposit. Like the purchase of a previously owned property, only when contracts are exchanged are all parties locked in.

2 Exchange of contracts securing the right to buy an off-plan property

At the point of exchange, the deposit – usually 10% of the purchase price – minus the reservation fee is due. It is advisable that you have a solicitor in place before reserving a property so they can carry out the necessary legal work ahead of the exchange of contracts, and make sure that deadlines are met.

If you change your mind about buying the property, you will lose your deposit. There is also a possibility that if the property is sold for less than you had agreed to pay, the developer could sue you for the difference in price.

3 Payment of staggered instalments

In the vast majority of cases, off-plan developments will take up to four years to complete. A second payment of 10% of the agreed fixed purchase price is usually required 12 months into the agreement. Once that payment has been made, the investor has two options.

Option 1: Completion of purchase

When an investor pays the reservation deposit, they can expect to be given an approximate completion date. This is likely to be quite vague and the developer will not be liable to any penalties if it is missed.

When the building work moves closer to a finish date, a more specific target date for completion may be provided on exchange of contracts in relation to the final purchase. But please note it is only if what is known as a longstop date is specified that the developer will be subject to penalties for missing the deadline.

On exchange of contracts relating to the final purchase, the purchaser must have the funds available to meet the price agreed at the reservation stage.

However, arranging a home loan for a property that is not yet complete can be difficult because some mortgage companies consider such deals high risk. {Garton Jones have specialist brokers in place to help}

Not only that, your circumstances could have changed dramatically between the time you reserved the property and when the final purchase funds are due. Failure to complete the purchase not only means you will lose the property and the deposit money already paid, but the developer could still hold you to the contract you signed.

And if the developer can only resell the property for a lower price, it could sue you for the difference.

Peace of mind

Assuming you go ahead with the purchase, before legal completion takes place the developer is obliged to give you an opportunity to look round your property and identify any faults that need to be put right. This is known as a snagging list, and the developer has a legal duty to correct any post-build faults.

One of the **advantages of owning a new-build buy-to-let property** is it will require very little maintenance in its early years, but purchasers of homes built by developers gain additional peace of mind because they come with a 10-year warranty provided by the National House-Building Council.

The Buildmark warranty not only provides cover in the unlikely event of the builder or developer being unable to start or complete the project due to insolvency or fraud, it will pay the cost of putting right physical damage in specified areas of your property, such as floors, staircases, roofs, drains, windows and doors, for 10 years.

Option 2: Resell the off-plan property before completion

As a result of property values in London increasing well above the rate of inflation since the start of the 21st century, the average price of a home in the capital is now over £550,000 and rising. According to mortgage lender Nationwide, the price of a London home jumped 10.6% during summer 2015 following an increase of 7.3% between March and May 2015.

This means the value of off-plan investments will have risen considerably in the years between the time a property is reserved and when the developer requires the final payment. But with many of the most desirable new-build homes in London selling off-plan for in excess of £1m **some investors find themselves unable to raise the capital needed to complete the purchase**.

Flipping, or reselling the off-plan property before completion, offers investors an invaluable lifeline – or a path to a quick and easy profit in a rising property market.

A real-life example

In January 2014, KC and a group of five fellow investors reserved a £3,075,000, three-bed flat in The Corniche, a tower being built on the Albert Embankment that is due to complete in 2017.

As the flat was bought off-plan, KC and his fellow investors had to find only 10% of the sale price – £51,250 each (give or take 66p) to secure the property.

Just seven months later, KC sold the property on to a Russian couple living in London. They paid £3.675.000, which netted his six-strong group a £600,000 profit, plus the return of the original £307.500 investment.

The great thing about this style of short-term speculation is that while investors must pay Capital Gains Tax (currently either 18% or 28%) on any increase in the off-plan property's value, KC and his fellow investors did not have to pay the £282,750 Stamp Duty Land Tax bill they faced had they completed the purchase themselves.

But **there are risks to flipping off-plan investments**. Not all developers allow flipping of new homes, and investors should be aware that…

- They might not be able to find a buyer; and
- The property market may dip between the time of the original investment and when you want to offload the off-plan property.

To minimise the risks, investors are advised to…

- Seek out an estate agent that specialises in the resale of off-plan properties. While you will need to meet the agent's agreed fees and terms, that cost will often be recouped by the property marketing specialist achieving a higher price for your off-plan investment than you could get by walking round the local area wearing a sandwich board.
- Look for a property where the completion date is far enough in the future to cushion any effect that a minor slowdown in the market may have.

5 rules to follow when flipping off-plan investments

- Beware that some developers will insert clauses into their contracts that prevent an investor flipping the property, while certain mortgage lenders also take a dim view of the strategy.
- Buy at the development's early stages when prices are at their lowest. If you buy just months before completion, you have little chance of riding the market upwards.
- Choose a scheme that will appeal to overseas buyers.
- Never sign up for a property without a Plan B of what you will do if you can't sell it on.
- Don't buy cheap and nondescript in the suburbs. The liquidity is in top-notch specifications and locations.